S. HRG. 99-970

OVERSIGHT OF NAVAL PERSONNEL DEMONSTRATION PROJECTS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

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OVERSIGHT OF NAVAL PERSONNEL DEMONSTRATION PROJECTS

TUESDAY, JULY 8, 1986

U.S. SENATE,
SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE AND GENERAL SERVICES,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
San Diego, CA.

The subcommittee met at 10 a.m. at the Naval Ocean Systems Center, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Present: Senator Stevens.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Good morning. This is the Civil Service, Post Office, and General Services Subcommittee of the Governmental Affairs Committee of the Senate. I'm conducting this hearing for the full committee and for our subcommittee as an oversight hearing on the demonstration project that is taking place here at your Naval Ocean Systems Center.

We're going to hold a similar hearing Thursday at China Lake. These hearings in California are really a continuation of hearings that we've already held in April and May in Washington, DC. Those hearings spoke on several bills to reform the pay system, particularly on the retention problems of our Civil Service System. And, as you know, the administration has taken the position that some of the problems that we face governmentwide might be solved by expanding the demonstration project that has taken place here and in China Lake into a new governmentwide system.

There are Members of Congress who are skeptical about that concept and wonder whether these two demonstration projects could be successfully expanded governmentwide. We're here to learn more about the project. We know it's been a relative success. We are interested to know what problems developed in its evolution, and I'm interested to know if there are any failures that really occur; any really deep problems.

Our subcommittee has no hidden agenda. We have just finished a 7-year project to reform the retirement system for the Federal Civil Service, and I'm one who believes that it's better to take a total look at the whole system to find out what's wrong with it, if there are problems with it, rather than trying to fix it before we know how it's really working. So we're going to have hearings throughout the country to determine what problems exist before we at-

tempt to make massive changes in this system. I do appreciate the help that those of you associated with the center have given to our staff.

Let me tell you that we have, behind me, from this side over, Kim Weaver, who represents Senator Gore; Dave Williams, who represents Senator Durenberger; Jeff Steger, who represents the Chairman of the Full Committee, Senator Roth; Rem Dickinson, who represents Senator Warner; Lori Beth Feld, who represents Senator Trible; Sara Boney, who represents Congressman Wolf; and Allie Giles, who represents Senator Levin.

It's a busy time for Members of the Senate. They are all off on their own sort of project right now. This happens to be mine. So I'm pleased that my good friend, Congressman Bill Lowery, who represents this district, is here to make a statement concerning the subject matter of the hearings.

I hope when you finish your statement, Congressman, you'll come join us and listen to some of these panels and what they're going to tell us about the system that's taking place here in your district. So why don't we proceed with your statement.

TESTIMONY OF HON. BILL LOWERY, A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative LOWERY. Thank you, Senator. I'll keep my opening remarks brief so that we may proceed with the testimony. I would, however, like to thank my distinguished colleague, Senator Ted Stevens, for affording me the opportunity to participate in this important hearing.

I visited with employees at NOSC to gain knowledge on how this demonstration project is working, and I've had very positive feedback. I support the idea of basing Federal pay more on performance rather than merely seniority, and believe that the success of the project here and in China Lake reflects well on the possibility for an innovative Federal pay structure based on these demonstration projects.

At the same time, however, I recognize the China Lake program to be under conditions which may not be readily applicable to all sectors of the Federal workforce. Specifically, these demonstration projects affect employees that are nonunion, skilled scientists and engineers. Whether or not a program where the managers' greater hiring and promotion flexibility can be successful in a unionized and less specialized work place remains to be seen.

In any event, I would like to commend the efforts of Senator Stevens and Representatives Bill Ford and Mary Rose Oakar, who are diligently working to formulate an innovative and equitable Federal pay policy; and also my colleague on the Post Office Subcommittee for Appropriations, Frank Wolf. He's been leading the fight in the House on the reforms.

This effort is critical if the United States is to recruit and, importantly, retain well-qualified individuals who are serving in all capacities to perform the duties their Government asks of them. Improving the efficiency and productivity of the public as well as private work force is a goal well worth pursuing. We owe no less to

the taxpayers of America and to the thousands of fine Federal workers.

Mr. Chairman, again, I thank you for allowing me to participate in this hearing. I would like to join you until I have to leave for an appointment, about 11 o'clock, but I will be very much willing to listen to testimony.

Senator STEVENS. We're happy to have you join us, Congressman. The first panel that is going to present views or answer my questions, Mr. Hillyer, Mr. Riley, and Mr. Merrow. Would you come up to the table, please?

Mr. Hillyer, let's start with you. I understand that's been arranged and is a good way to proceed, as far as I'm concerned.

TESTIMONY OF ROBERT M. HILLYER, TECHNICAL DIRECTOR

Mr. HILLYER. Yes, sir. Mr. Chairman, Mr. Congressman, I'm Bob Hillyer. I'm Technical Director of Naval Ocean Systems Center. That's the senior civilian position in the center. I work for Capt. Mike Pestorius.

I'm pleased that you've chosen to hold these hearings here and at China Lake. I especially appreciate the opportunity to influence the potential application of some of the principles of the Demonstration Program to broader use in the Federal service. I hold the conviction that we have indeed demonstrated the efficacy of an improved personnel management system for the Federal service.

I was fortunate to have had the opportunity to testify to your committee about 2 years ago in September. The views I held then are still in effect; indeed, if anything, they've been fortified by the fact that I've now had 2 more years' experience at the Naval Ocean Systems Center. I think I'm uniquely qualified to comment on the Demonstration Program because I've served as Technical Director of both China Lake, in the days of the inception, as well as the Naval Ocean Systems Center.

In between those two positions, I was the Director of Navy Laboratories, where I oversaw all of the Navy laboratories and was able to compare personnel management in the demonstration laboratories with those of the others using the standard GS/GM personnel systems.

When the CSRA Act of 1978 was first passed, I studied carefully and asked myself the following question: What have been the five biggest problems that I've seen in personnel management with 25 years' experience in the Federal service, and how many of those have been addressed by the Civil Service Reform Act?

Those five problems were the burdensome classification system and our inability to properly move people to jobs where their talents could best be suited and best utilized; our inability to reward good performance and penalize poor performance; our inability to compete in the marketplace for scientists and engineers in particular, but more broadly than that, not only for new graduates, but also the midranged level. But the real problem was at the new graduate level. Our inability to retain the best people under situations of reduction in force and the artificiality of the GS structure with respect to the nature of the jobs that people were performing. Again, not allowing us to properly pay people for the performance

that they were providing the Government. None of these five were addressed by the CSRA, and that's what, in my mind, made me want to seek a demonstration project at the Naval Weapons Center. We later joined forces with NOSC for the joint project.

I'd like to emphasize a few points about the demo program. First, it's a greatly simplified personnel system when compared to the GS/GM system, yet it is more effective by all measures. And you'll hear some of that in a few moments from Mr. Merrow. This benefits managers, supervisors, and employees alike, as well as the U.S. taxpayer, in giving us more efficient operation.

Although we originally designed the system primarily for our professional/technical staff, it has proven equally effective for technicians, administrators, and clerical personnel in its application. Similarly, we use the same system for managers, except for the SES people, Senior Executive Service people, here at the center, and other employees; and it has been equally effective for both.

NOSC and NWC are both Navy laboratories, but they are indeed unique organizations, quite different in their makeup, their culture, their structure, and their organizational personalities. The system works equally well at both places. In short, it's versatile and broadly applicable.

Next, a real strength to the demo is that, while it sets a rigid framework for personnel management, it also provides enough flexibility to allow implementation differences, and the implementation to be tailored to the needs, characteristics, culture, and personality of the organizations. However, that rigid framework does provide adequate, indeed complete, employee protection.

Finally, the system has been effective, as I said, by all measures. Acceptance by employees, supervisors, managers, and others has been good, high especially when compared to that of personnel systems in general. No one really likes personnel systems. Understandably, in any population, not everyone will be pleased with any personnel system, and that includes this one. Competition for jobs, promotion, rewards, other things, do cause a degree of dissatisfaction. Not all can be satisfied.

Over the course of the program, however, as it is a demonstration program, an experimental program, we've listened to our employees, we've listened to their suggestions, we've maintained a dynamic posture, and we've made adjustments in what we've learned in the last 6 years. I am personally confident that this system offers a better personnel management system for Government, and urge that you carefully consider applying its basic principles more broadly.

If you would like to proceed, sir, Mr. Riley is prepared to give a brief description of the demonstration project. Mr. Merrow is prepared to give a summary of the evaulation process and the results of that evaluation process that is going on continuously throughout the program.

Senator STEVENS. Is that all right with you, Bill? OK. Proceed, Mr. Riley. We'd be pleased to hear from you.

TESTIMONY OF W.R. RILEY, PERSONNEL DIRECTOR

Mr. RILEY. In the interest of time, I've provided your staff with a joint writeup by the two naval centers involved with this project. You may want to consider that for inclusion as it gives most of the detail of the project. Additionally, if you would like to follow along, I've provided your staff some overview materials that you can follow along my discussion if you'd like.

[The overview material referred to follows:]

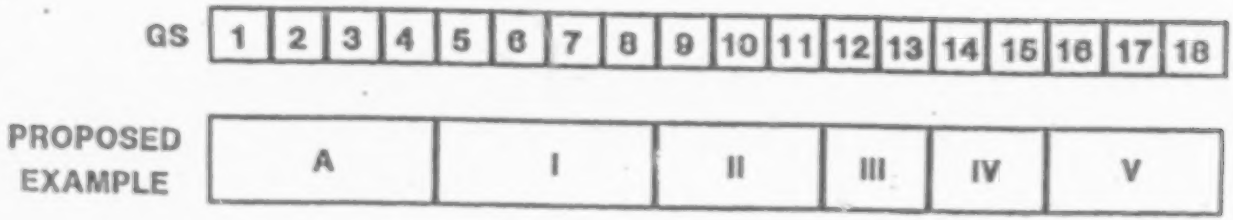
A DEMONSTRATION PROJECT
under the
Civil Service Reform Act (CSRA)
by
Naval Ocean Systems Center
and
Naval Weapons Center

PURPOSE

IMPROVE THE FEDERAL PERSONNEL MANAGEMENT SYSTEM BY GREATER LINE MANAGEMENT CONTROL OVER PERSONNEL FUNCTIONS

- SIMPLIFIED CLASSIFICATION
- SIMPLIFIED PERFORMANCE APPRAISAL
- PERFORMANCE BASED COMPENSATION
- PERFORMANCE BASED RETENTION

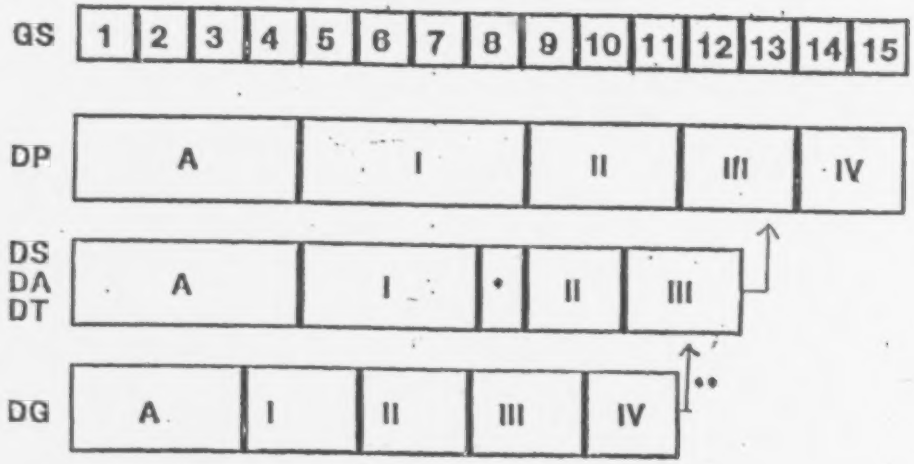
CAREER PATHS



- SEPARATE CAREER PATHS
- BROAD PAY BANDS
- PROGRESSION BETWEEN LEVELS OF DIFFICULTY
- PROGRESSION WITHIN LEVELS BASED ON PERFORMANCE

450 8

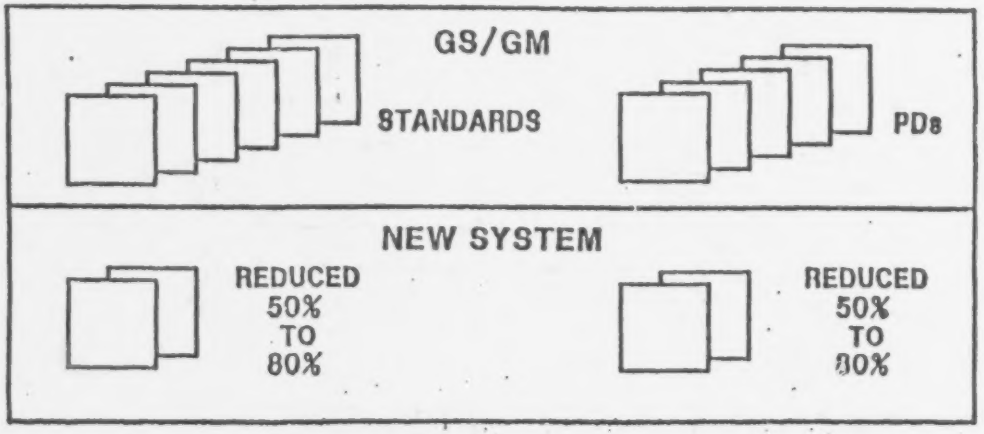
NAVY CAREER PATHS AND PAY SCHEDULE FY 1983



* AT NWC, GS-8 LEVEL TECHNICIANS ARE INCLUDED IN LEVEL II. AT NOSC, GS-8 LEVEL TECHNICIANS ARE INCLUDED IN LEVEL I

**NOSC ONLY

CLASSIFICATION



STANDARDIZED
DESCRIPTORS
OR
MENU

- ABBREVIATED POSITION DESCRIPTIONS AND STANDARDS
- DETERMINE BROAD RANGES OF DIFFICULTY
- SIMPLE/UNDERSTANDABLE

10

NOSC CLASSIFICATION

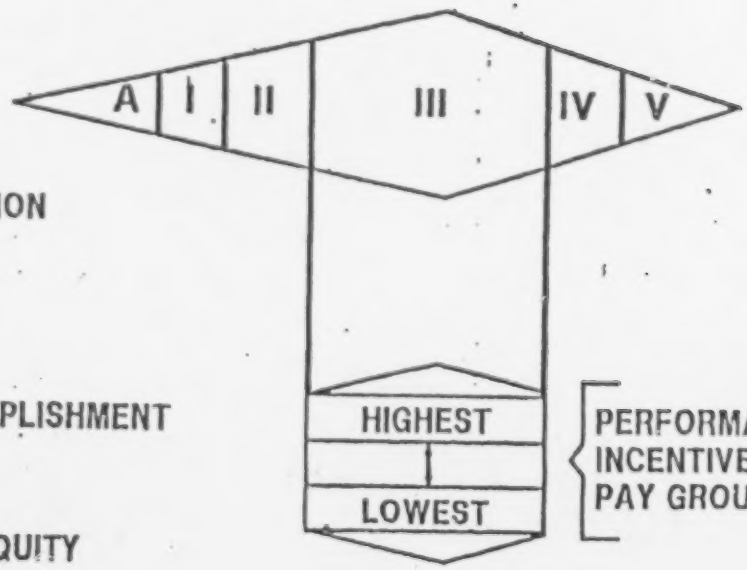
- NO INDIVIDUAL PDs
- BRIEF GENERIC LEVEL/SPECIALTY DESIGNATOR (L/SD)
  - STANDARD AND PD COMBINED
  - FUNCTIONAL, SPECIALTY CODES WHERE APPROPRIATE
- GENERIC TITLE
- RETAIN SERIES

NWC CLASSIFICATION

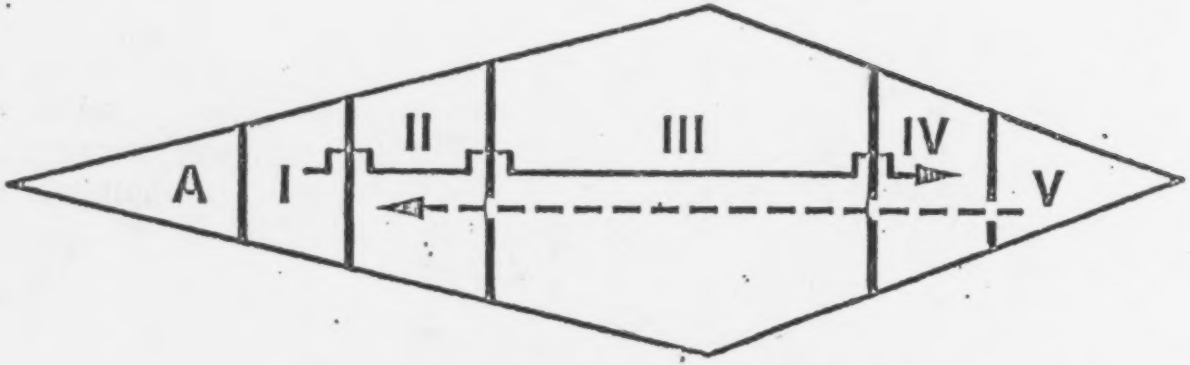
- HAVE ONLY ONE STANDARD FOR EACH LEVEL
- HAVE A "MENU"
- MAKE SPECIFIC "MENU" SELECTION FOR POSITION
- COMPUTERIZE STANDARDS AND PAC PRINT-OUTS

PERFORMANCE APPRAISAL

- PLANNING
- MINIMUM DOCUMENTATION
- REVIEWS
- FINAL APPRAISAL
- PAY OUT
- BASIS
  - — OBJECTIVES ACCOMPLISHMENT
  - — TEAMWORK
  - — CURRENT PAY
  - — ORGANIZATIONAL EQUITY



PERFORMANCE LINKED PAY RESULTS



HIGH PERFORMERS — ADVANCE BY PERFORMANCE APPRAISAL AND PROMOTIONS BETWEEN LEVELS

LOW PERFORMERS INCREMENTALLY RETREAT THROUGH PERFORMANCE APPRAISAL PROCESS TO LEVEL OF COMPETENCE/ACTUAL PERFORMANCE

NOSC

Midpoint Principle

Employees with salary above the midpoint of the salary range for a demo project level must receive two or more incentive pay points in order to receive a pay increase

Exceptions:

(1) Employees in training status

- New professionals
- Long-term training
- Upward mobility

(2) Employees who are ineligible for more than one point by virtue of not being subject to goals and objectives for at least 6 months

NOSC PAYOUT

RATING	POINTS CONT OR BONUS	COMP
OUTSTANDING	4	FULL
SUPERIOR	3	FULL
SUCCESSFUL	0, 1, OR 2 *	FULL
MARGINAL	0	0 OR 1/2
UNACCEPTABLE **	0	0

- 2.3% OF 30 JUNE SALARIES - CONTINUING
- .7% OF 30 JUNE SALARIES - BONUS
- FUNDS ALLOCATED TO ORGANIZATIONS
- PRE-ESTABLISHED POINT VALUES
- RATING/PAY APPROVALS IN JULY
- PAY OUT OCTOBER

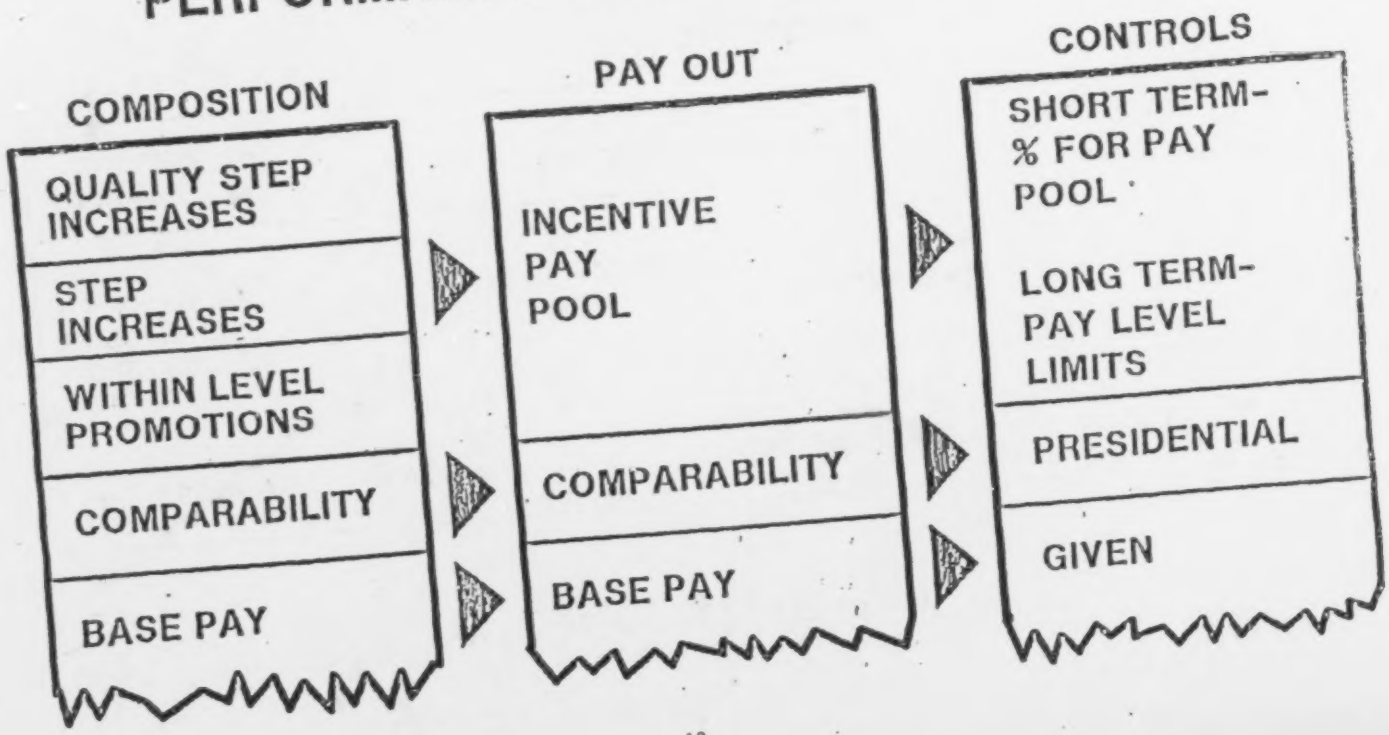
* MIDPOINT PRINCIPLE

** REMOVAL, DOWNGRADE, OR REASSIGNMENT REQUIRED

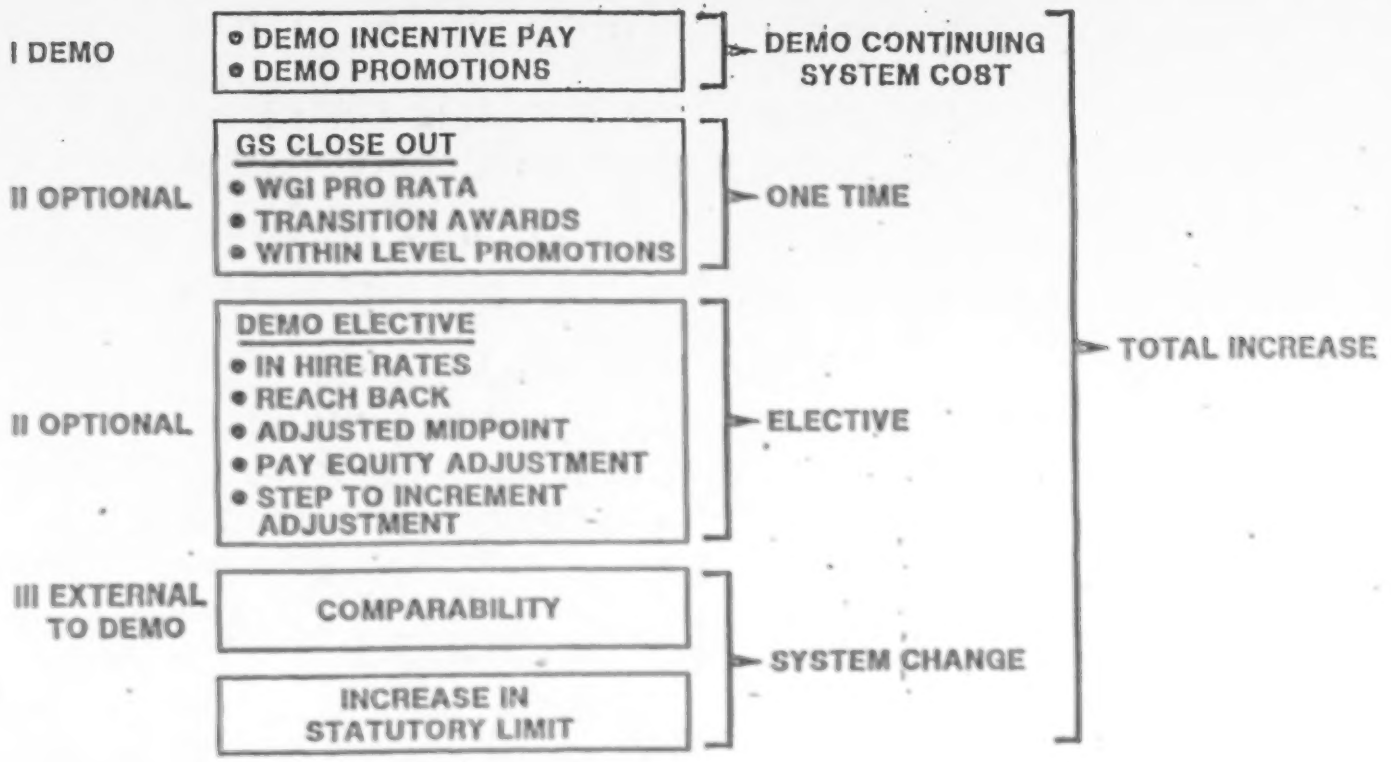
NWC INCENTIVE PAY

ASSESSMENT	RATING	DEFINITION	SALARY ADJ
HIGHLY SUCCESSFUL DESERVES AN AWARD	1	PERFORMANCE THAT IS DEMONSTRABLY EXCEPTIONAL	C + 4i OR C + 3i
	2	QUALITY PERFORMANCE THAT EXCEEDS FULLY SUCCESSFUL STANDARDS	C + 2i
FULLY SUCCESSFUL	3	FULLY SUCCESSFUL PERFORMANCE	C + 1i OR C
LESS THAN FULLY SUCCESSFUL	4	BELOW FULLY SUCCESSFUL	C/2
	5	SUBSTANTIALLY BELOW FULLY SUCCESSFUL	0

PERFORMANCE BASED COMPENSATION



CIVILIAN PAY COMPONENTS



REDUCTION IN FORCE

- USES BASIC CIVIL SERVICE REDUCTION IN FORCE (RIF) METHODOLOGY; INCLUDES TENURE GROUP, VET'S PREFERENCE AND SERVICE COMPUTATION DATE
- GROUPS COMPETITIVE LEVELS PRIMARILY BY PERFORMANCE
- INCREASES PROBABILITY OF RETAINING HIGHEST PERFORMANCE INDIVIDUALS
- INCREASES PROBABILITY OF DISPLACEMENT OF LOWEST PERFORMERS
- DECREASES DISRUPTION

PERFORMANCE BASED RETENTION

- PERFORMANCE
- TENURE
- VETS PREFERENCE
- SERVICE
- (PERFORMANCE)

NEW SYSTEM

CAREER PATH AND LEVEL	SEPARATE	RETAIN
	• LOW PERFORMERS	• HIGHER PERFORMERS
	• OTHER FACTORS AS BEFORE	• OTHER FACTORS AS BEFORE

SUMMARY

- RANK IN POSITION/RANK IN PERSON
- SIMPLER CLASSIFICATION
- REASSIGNMENT FLEXIBILITY
- DUAL CAREER LADDERS
- IMPROVED COMMUNICATIONS
- PERFORMANCE LINKED COMPENSATION
- ENHANCED RECRUITMENT
- IMPROVED RETENTION OF HIGH PERFORMERS
- REDUCED PAPERWORK
- RESPONSIBILITY/ACCOUNTABILITY

Senator STEVENS. Thank you.

Mr. RILEY. Unless you desire to deal with some of the details, I'll hit only the main concepts of the project, again, in the interest of time and in the interest of the material Mr. Merrow has, which I think is particularly pertinent.

Senator STEVENS. Have you got another copy of that with you for Mr. Lowery, please?

Mr. RILEY. Yes, sir.

Senator STEVENS. Thank you.

I have a basic question before you start. You list scientists, engineers, and senior professional staff at both installations. Now, is the breakdown of those in that category roughly the same between the two installations? How many scientists, how many engineers, and how many senior professional staff?

Mr. RILEY. Scientists, engineers, and the senior staff are roughly equal, and there are about 1,500 at each activity. The Naval Weapons Center, of course, has a larger onboard count because they have some support services there that we've drawn from Navy activities here.

Senator STEVENS. How big is the senior professional staff?

Mr. RILEY. I would guess that's another 150 to 200 people. There may be a misunderstanding on who all is in the project, and I should clarify that for you, sir.

Senator STEVENS. OK. Go ahead.

Mr. RILEY. Here at the Naval Ocean Systems Center, all white-collar employees in all white-collar occupations are in the project. That includes clerical, scientific, engineering, technicians, administrative, and technical specialists, as well as managers and supervisors. So what we have here is basically an on-the-ground test of a merit pay, simplified classification system for white-collar occupations across the board. We have a pretty good range of occupations here at the Center, comparable to most Federal activities.

Senator STEVENS. I can't agree with that. I am impressed with this overwhelming number of scientists, engineers, and senior professional staff. Half of the people in each installation come into that category.

Mr. RILEY. Yes, sir.

Mr. HILLYER. Well, technically, about a third at China Lake.

Senator STEVENS. China Lake is greater according to these statistics, 1,444 out of about 2,500.

Mr. HILLYER. That number is incorrect, sir. It's about—it's been awhile, sir—about 1,500 out of about 5,000 employees at China Lake.

Mr. RILEY. China Lake does not have all employees in the project, and that may be making the numbers seem inaccurate.

Senator STEVENS. I see.

Mr. RILEY. They don't have the clerical employees; and obviously they do have a larger blue-collar occupational group than we do, and so those numbers are not included, naturally.

Representative LOWERY. Were the blue collar included in this demonstration project at China Lake?

Mr. RILEY. No, sir.

Representative LOWERY. They were not?

Mr. RILEY. Not on either side. These were focused on white-collar occupations.

Shall I proceed?

Senator STEVENS. Please, yes.

Mr. RILEY. All right. Basically what we wanted here at the Naval Ocean Systems Center was a simple single system that could be used on all of our white-collar employees, not so much because they should all be treated identically, but because we wanted most people to know the system processes and be able to use them in a reasonably knowledgeable manner; one performance system, one pay system. Although, obviously, the rates are different for different occupations. So we wanted that simple single system.

We wanted to reduce the amount of paperwork we had to deal with. We wanted to stress management accountability and responsibility. And that obviously was in the Reform Act, in some of the pay for performance aspects of the Civil Service Reform Act. And, of course, we wanted to test most of our personnel processes and say: Are they mission-oriented? Do they add value to the process of getting the mission accomplished, or are they just rituals? Are they just things that we do because they are required?

So we put that test to each of the things that we decided to modify. We did not modify the entire GS system. We modified selected portions and then merged that with the existing system, and they work pretty well together.

The key parts of this project are the broad pay bands and the simplified classification, and if anything is different—certainly not new—but if anything is different, those are the things that are different.

The other aspects of the project have been either overtaken or concurrently were accompanied by the other Federal system, the performance-based compensation, simplified performance appraisal to some degree, and, certainly, performance-based retention or RIF regulations have changed over the last 4 or 5 years, to where we certainly aren't doing anything much different in those areas.

If you'd like to go to page 3.

What I showed on page 3 are the basic General Schedule career paths, which run from roughly grade 1 to grade 18. And below that is an example of the broader pay bands of the demonstration project, and you can see that we have actually consolidated into five or six basic pay levels.

We have also—and I show in the next page—some separate career paths for each grouping. But within these broad levels of difficulty, people progress just like they do in the General Schedule system. But within each level, within that level, they progress based on performance, just as they do in the merit pay system throughout the Government today.

Page 4 is just a quick look—and I won't go into detail unless you want to—on those career paths. But what it shows you is what exists here at the Naval Ocean Systems Center. The top path, compared to the GS scale up above, are scientists, engineers and key managers and supervisors and some senior nonsupervisory scientists and engineers.

The middle path is really three. It's labeled "DS," "DA," and "DT." And those are our administrators, technicians and special-

ists, and they are treated much alike in our classification and broad pay bands.

And the bottom one is our clerical grouping, which is personnel clerks and clerk typists and secretaries and assistants kinds of jobs.

If you turn to the next page where we talk just a little bit about the classification system. Part of our frustration with the existing classification system was that it certainly was too detailed; it certainly had too many multiple standards; it required sometimes pages of analysis to come up with a grade level when in fact we typically recognize up front what grade level would be placed on the job.

So we decided to simplify that and went to an abbreviated position description approach, using our broad ranges of difficulty, which is really the heart of this project, we came up with a pretty simple, understandable system. We think we've reduced the paperwork in the classification side of the system by about 85 or 90 percent.

The other key factor here at the Naval Ocean Systems Center is that our classification is delegated to the managers. They exercise the classification authority. Traditionally—this is the Navy Department—the commander exercises classification authority and delegates that to the personnel staff. Here it's delegated to the management at various levels.

The next page is just some detail on the classification system. I won't go into that unless you desire to. But basically we've moved to a pretty simple system where we identify functional and specialty codes. That is, are employees in design or development? Do they work in radar or acoustics? We still retain the GS series, which I'm sure you're familiar with, whether they are in electronics or whatever. But we only use about eight titles, and those are engineers, scientists, managers, supervisors, three kinds of specialists in the system and assistants.

Our classification system properly qualifies as more of a compensation system. It has, for our practical day-to-day use, about four basic levels of difficulty. It's easy for a manager, and it's easy for an employee to look at that system and say either I'm looking at a trainee, an advancing learner, a full journeyman, or a senior journeyman, or a supervisor. That's the heart of the system and what makes it so easy to use.

I won't talk about our next page, page 7, the NWC classification system. It's similar to ours. It uses a factor approach. And they will discuss that with you, I think, at the Naval Weapons Center a lot better than I can.

The next page, page 8, talks about performance appraisal, and I won't go into detail there, except to say that we subscribed to the merit pay approach that the Government adopted in 1978, but we extended it to all levels of white collar employees. There have been many of the same kinds of planning, documentation and other things that are done in merit pay systems, except we focus on limited paper work, and we focus on objectives, accomplishment, and what we already pay an employee. That system has been working well for us. And I think Mr. Merrow has some details on that for you.

The next page is page 9. We've talked about performance-linked pay results, and all we're trying to show by that strange-looking diamond in the center, the Roman numeral III represents 12 and 13 engineers in our work force, roughly, in proportion to how they're spread around the workforce. And we show there that they are promoted up through the various levels, 1, 2, 3 and 4, just like the GS System. We use the merit promotion procedures that exist today in the system. And that within each level, based on their performance, their pay is increased, as opposed to having their pay increased by receiving step increases at various intervals, as the current GS System, but unlike the Merit Pay System.

The bottom dotted line shows simply that in our system—and I think this is also now in the Federal system generally—for an employee who is marginal, we give either zero or half comparability, and those employees would tend to drift down relative to other employees when comparability is normally being awarded. When it isn't awarded, of course, that part of the system doesn't work.

Look to the next page. I'm just going to mention briefly. You may hear some comment about the midpoint principle. That's a local thing here at the Naval Ocean Systems Center, and in concept what it says, we have a broad pay level. For instance, the GS–12 and GS–13 is put together. Typically we would like for a fully successful employee to halt at about the midpoint of that broad pay level. And that argument is that we want to pay what we think is about the going rate for a fully satisfactory employee.

We require that an employee receive one of the higher two-point, three-point or four-point incentive payouts to move beyond that midpoint. So it's a point where fully satisfactory employees hestitate and stay at that midpoint or, if you want to call it, representative rate of the pay range, until they excel and either get the two-point, three-point or four-point payout.

Moving to the next page—and I'll just cover this briefly because it is much like any other merit pay system—you should recognize that we developed our Merit Pay System concurrent with other Federal agencies, and we didn't have the benefit of their experience. So ours is a fairly simple system, it doesn't have all the features, it isn't as refined as some, but we did hang onto the idea of simplicity. And we pay out as most other systems do. We have five rating levels. Most of them have something like that. And we pay out points, translated into dollars, depending on the performance rating for that year. And then we pay comparability, of course, to the successful and above ratings, and zero or half comparability to the marginal, the unacceptable employee. Of course, we would remove or downgrade those rated unacceptable as under the current system.

One of the points I need to make while I'm on that pay system is that one of the key features of our broad pay levels is that we have both bonus increases and continuing pay, much like QSI's and SSP's under the GS system. An employee who does a one-time performance during the year, or may already be very high paid for the job they are doing, may get a bonus here; and that bonus is payable even if that employee is up against the top of the pay level; or, if you will, if they are at the GS–15 and against the statutory pay

level, they can receive a bonus in the dollar amount that their continuing pay increase would have been awarded.

The principle that it's like a sustained superior performance award. It's an award and it's payable even though they are up against the statutory limit or at the top of the pay level. What that provides is some additional incentive for an employee who is topped out in their pay level. They still can perform well and be recognized by a bonus payment each year.

Page 12, I'm going to skip over. It's the Naval Weapons Center's incentive pay plan. It's much like ours. It's a little different because they use pay increments, and we don't have any particular increments. We use the exact dollar amount that the employees' pay comes out, much like merit pay. But the two systems, as you see on the chart, are very similar in their payout and how they are administered.

Page 13 addresses, simply, where does the money come for our pay system. What we tried to do was demonstrate on the left-hand side of the page that we use the money, historically, from quality step increases under the GS system; and again, we never were in the Merit Pay System, but under the GS system, the step increases that were normally awarded there; and within level promotions, that is, promotions we don't make because we have broader levels. We don't promote people from GS–12 to GS–13 anymore. We actually have that all one level.

So we historically gathered some facts on those payouts at the Naval Weapons Center and the Naval Ocean Systems Center, and came up with an incentive pay pool that is our guideline figure. In agreement with OPM, we've had that figure for 6 years now. It's consistently been between 2.3 and 2.4 percent at the two laboratories.

The right-hand side of the page shows controls that exist. And while I'm not an advocate, necessarily, of lots of controls, we need to demonstrate this system has a lot of similarity with the GS and the GM system. It can be controlled where you need to. Short-term basis, you can limit the amount of the payout. I mentioned we paid 2.3 percent incentive pay pool here at the Naval Ocean Systems Center. In Merit Pay, in the early years, the amount of payout was restricted. Whether people like that or not, it was restricted.

Basically, the pay comes from our incentive pay pool, and it comes from the General Schedule, former system of quality step increases, the within-grade step increases, and within-level promotions, the promotions that don't occur under this broader pay level system. That money forms our incentive pay pool. And that typically has been about 2.3 percent here at the Naval Ocean Systems Center.

Controls I've mentioned, I'm probably boring the Senator by going over that again. But again, short-term controls—we can limit the amount of money put in the incentive pay pool. We agreed to about 2.3 percent. We could limit that to 1 percent if it was a tight year, or we could extend it to a greater amount if the Government felt they should be paying more out in incentive pay on a particular year.

Long-term kinds of controls, although I personally don't favor those, we could put controls on how many level 4's or level 3's we

have. We are familiar with controls in the GS system and how many level 15's or level 14's or whatever you have. So the system lends itself to considerable control, and I think that's a good point. While we have exercised some internal controls here, we haven't been constrained by external controls, but that's possible to impose.

The next page, I won't dwell over, page 14. The only point we made there is that this is a pilot study, and prototypes sometimes cost a little more than the production model. I'd like to remind people that when we initiated this project, it was our intent to have the employees not hurt by the project, have the employees hopefully accepting the new concept and working with it. And so we went about trying to pay off some minor obligations that were incremental amounts of money, but affect how people feel. We paid off within-grade increases that people were due, which no longer exists in our system. We prorated it for what they were due.

There are some other kinds of things in our system that you read about in the paper a lot; for instance, our in-hiring rates for scientists and engineers. We have had the luxury of adjusting those in-hiring rates, although we've held them fairly constant for the last 2 years. That's an additional cost that we elected to incur.

Senator STEVENS. What is an in-hiring rate?

Mr. RILEY. An in-hiring rate is a higher rate for a scientist or engineer. For instance, the GS-7 rate is not very competitive; and so OPM (Office of Personnel Management) annually takes a look at those rates and may adjust the starting rate for GS-7 engineers, and it will be higher than other starting rates for GS-7's in the Government. We've had the ability to adjust those rates just a little quicker.

If you move to page 15, I'll mention reduction in force only briefly. We haven't had a reduction in force here, we hope not to, but we included in the system the concept that it would be better to put a little more emphasis on performance in reduction in force. The Federal system has moved to that position too, concurrent with us, so it's not really news. There is more emphasis on performance, although it is a slightly more complicated system throughout the Federal sector.

Our system substantially breaks employees into two groups: those who are fully successful and above, and those who are marginal and below; and those are the basic competitive groups for the reduction in force. And then we apply all of the existing Federal principles to reduction in force that have always been in place: tenure, veterans' preference, and years of service. So, in essence, we've moved performance up on the top, where before it was just an addon of 3 to 4 years or so based on a performance rating.

Senator STEVENS. Do you apply those within the groups? You mean the existing veterans' preference, et cetera, applies to two groupings?

Mr. RILEY. Yes, sir. We break the employees into two groups: fully successful and above, and marginal and below.

Senator STEVENS. What percentage in a reducton in force applies to marginal employees? Are they the first reduced? Is that what you're saying?

Mr. RILEY. Yes. Yes. The marginal employee and below. The marginal and unsatisfactory are the first reduced, and they are or-

dered in their group of marginal and below employees based on tenure, veterans' preference, and service. So it's basically like any other Federal reduction in force, except first you've broken it into two groups, marginal and below, fully satisfactory and above. It follows some private industry principle that's logical, although sometimes arguable, to separate the lower performers first and the higher performers last.

Representative LOWERY. What percent are in the lower group?

Mr. RILEY. A very small percentage. At this center, we have only rated somewhere around 1 or 2 percent. And someone may correct me later in the day, but those are pretty close. One to two percent have been rated marginal or below. We haven't used that category extensively. I think we're getting used to it, because in the other system, when you withheld a step increase in the General Schedule system, it was a very detailed and time-consuming process, and most managers avoided doing that; they granted step increases. Our system is a little simpler, and the adjudication of appeals is much quicker and it's done locally. There is a good factfinding process, so it's working pretty well. But we haven't used that a great deal.

Senator STEVENS. You use that rating on an annual basis rather than, under the general law, on an average of several years. Isn't that right?

Mr. RILEY. Yes, sir. We use just an annual rate.

In summary, I just want to make a couple of quick comments on the demonstration project generally. We think we've got a system that has a little bit of both rank in person and rank in position. We've broadened out those levels and responsibility. We're able to move people around, and as we mentioned on this summary sheet, we have better assignment flexibility. We don't have to reclassify a job or temporarily promote a person or go through much of a reassignment process when we want to use an engineer on a different project. They are in a broad pay level that encompasses 12 and 13, and that flexibility has helped us a lot.

We have encouraged dual career ladders. With our simplified classification, we have moved more scientists, some additional scientists, back to the bench, and are encouraging people through our promotion process to pursue a dual career ladder. Some of those scientists we want to keep on the bench.

Senator STEVENS. What's "the bench?" I don't understand "the bench."

Mr. RILEY. Bench worker or designing and developing rather than being a supervisor. That's a local term, and I'm sorry that's confusing.

But basically, a lot of people in the General Schedule system felt like they had to become a supervisor to progress to a GS-13 or -14 or -15 level; and it was, in fact, easier to classify jobs with supervisor responsibilities. Our system has taken a little bit more active role in identifying the top performing scientists or engineers in their field and allowing them to stay in their field, and we think that's a good advantage.

We think basically our system, like Merit Pay System, has improved communications between employees and supervisors on the work to be done.

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Mr. HILLYER. We really do have a dual ladder where people can stay doing the technical work and progress to the highest levels of the organization. That used to be more difficult. Not impossible, but more difficult.

Mr. RILEY. Mr. Merrow is going to talk in a couple of seconds, if you're ready for him. I think he's going to mention the improved retention of high performers that's happening.

Obviously our paper work has been reduced in our classification system and in our performance appraisal. It's limited in the amount. We think managers and supervisors here have exercised a lot of responsibility and are accountable for their performance ratings, for the classifications that they are doing. We are generally satisfied that they are performing well in this experimental project.

Senator STEVENS. Mr. Merrow.

TESTIMONY OF C.M. MERROW, HEAD OF THE INTERNAL EVALUATION GROUP

Mr. MERROW. Yes, sir, Senator. I have been the head of the internal evaluation here at the center since a year before the inception of the project in 1979. I have a set of handouts which I have given to you, and which I will speak to. In the first one, titled "Demonstration Project Evaluation," I tried to indicate that there really are two separate but very closely related evaluation efforts underway.

[The handouts referred to follow:]

NOSC

DEMONSTRATION PROJECT EVALUATION

External Evaluation — OPM

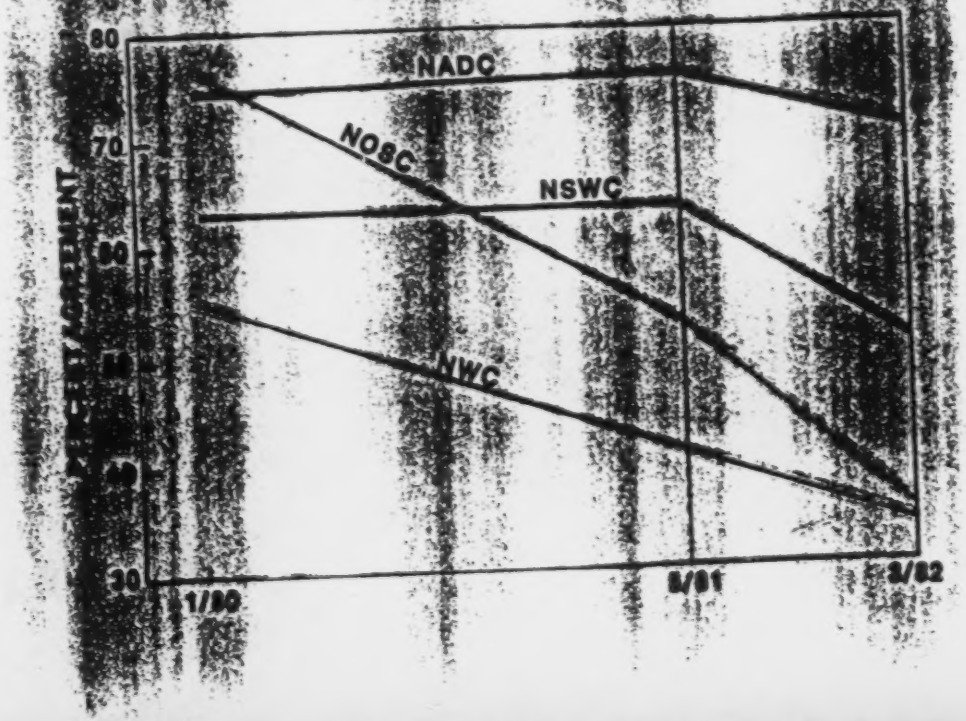
- Required by Legislation
- Emphasis on External Applicability
- Utilizes Control Lab Comparisons

Internal Evaluation — NOSC, NWC

- Required by Center Management
- Emphasis on Local Decision Options
- Supports and Complements External Evaluation

NOSC

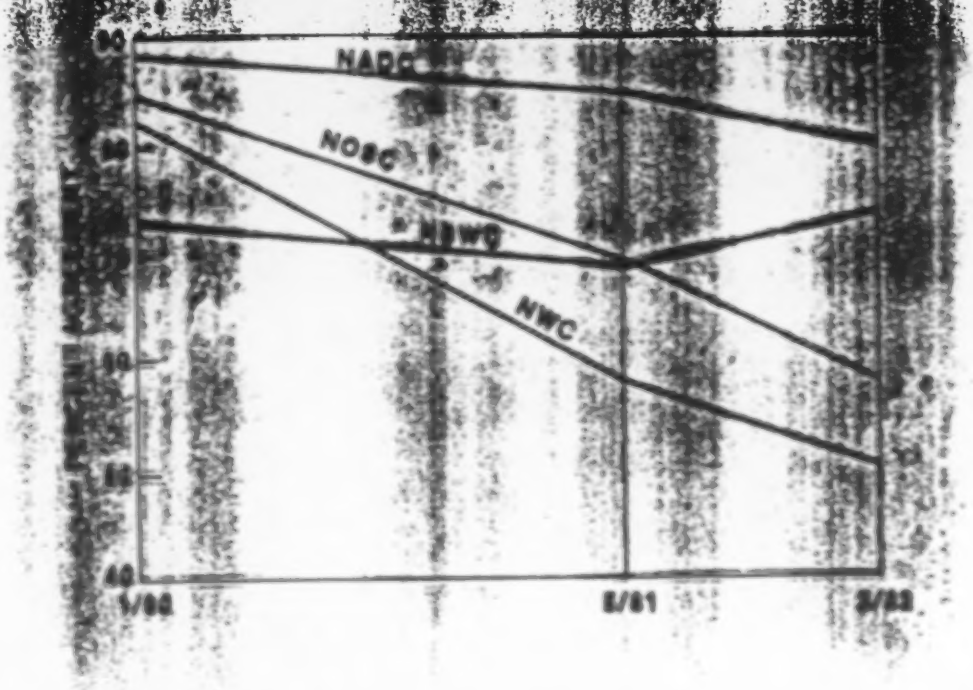
RESPONSES BY MANAGERS TO THE STATEMENT: "UNDER THE PRESENT SYSTEM, IT IS VERY DIFFICULT TO MOTIVATE EMPLOYEES WITH FINANCIAL REWARDS."



2T7918

NOSC

RESPONSES BY MANAGERS TO THE STATEMENT "I DO NOT HAVE ENOUGH AUTHORITY TO DETERMINE MY EMPLOYEES' PAY."



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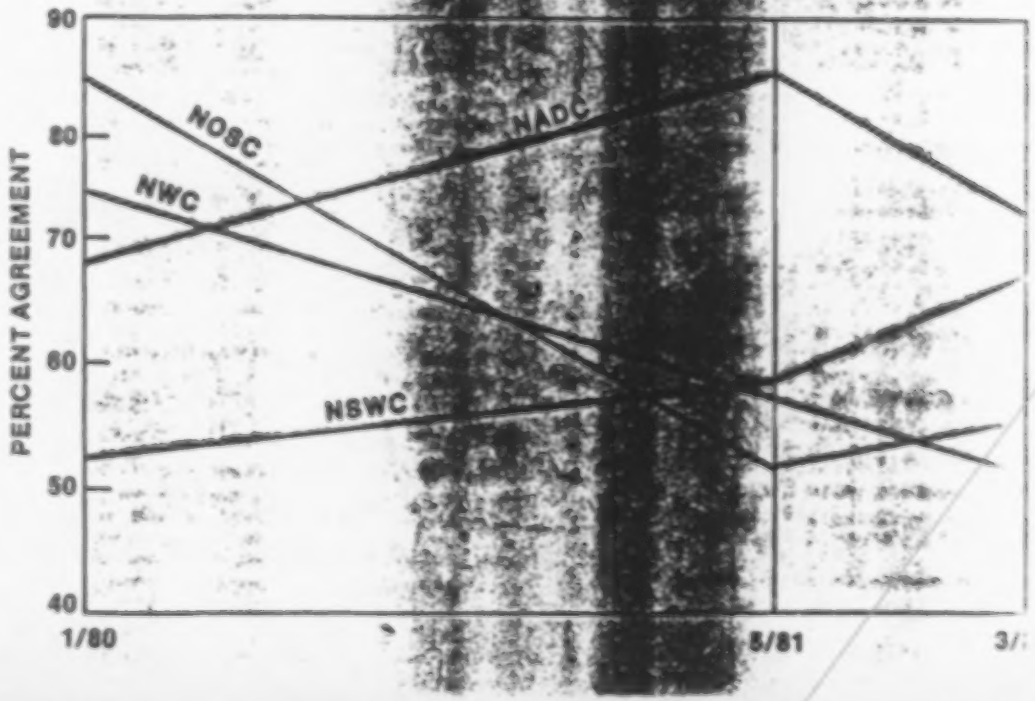
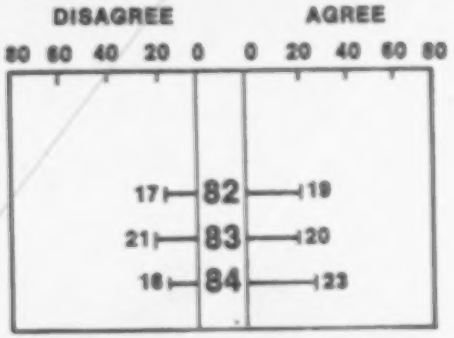
NOSC

RESPONSES BY MANAGERS TO THE STATEMENT: "SUPERVISORS HERE FEEL THEIR ABILITY TO MANAGE IS RESTRICTED BY UNNECESSARY RULES AND REGULATIONS"

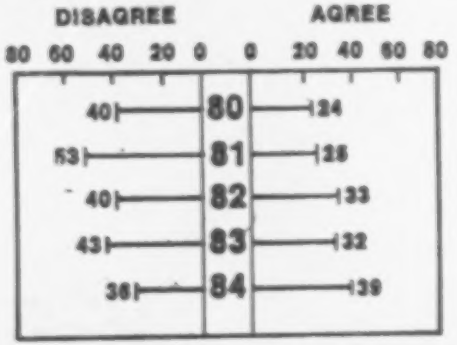


NOSC

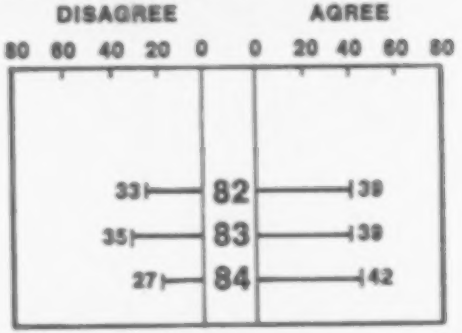
The Demo Project provides a fairer and more equitable pay system than the Navy Merit Pay System.



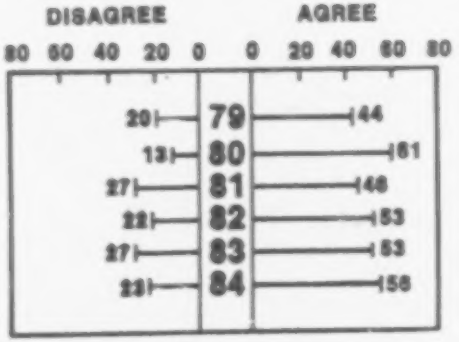
The incentive of higher pay for better performance under the Demo Project has motivated me to improve my job performance.



I am more satisfied with the way my pay is determined under the Demo Project than under the former system.

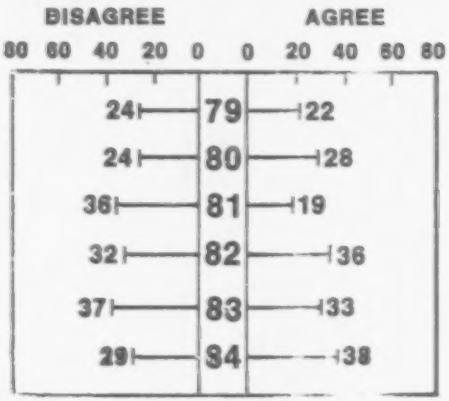


On balance, the Demo Project probably will not affect me adversely.

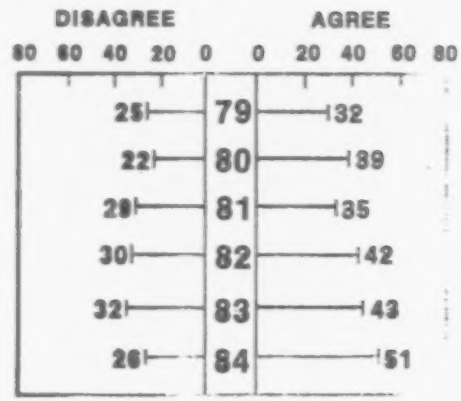


NOSC

The Demo Project provides a fairer, more equitable system than we had before.



I am in favor of the Demo Project.



NOSC

PERFORMANCE RATINGS— EXPECTATIONS vs ACTUAL

RATING	RATING BELIEVED EARNED: FE	E	M	B/N
FE	78	16	2	0
E	167	461	46	1
M	38	262	159	15
B/N	3	14	7	2

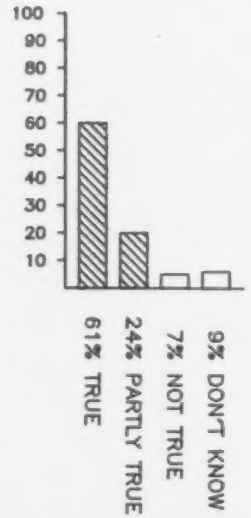
491 OF 1271 RESPONDENTS (39%) BELIEVE THEY EARNED A HIGHER RATING THAN THEY RECEIVED

4T35

UNDER THE DEMO CLASSIFICATION SYSTEM

SIMPLER
MORE UNDERSTANDABLE

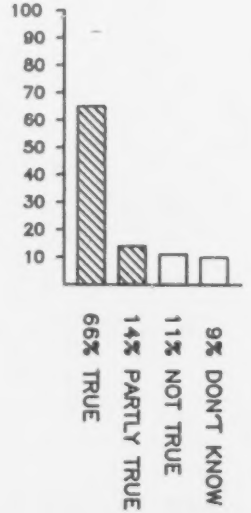
SIMPLER



85%

PAPERWORK
DECREASED

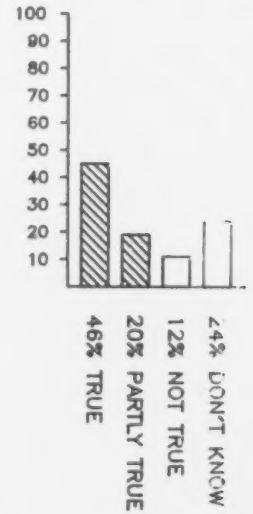
PAPER DECREASED



80%

CONFLICT/PRESSURE
REDUCED

CONFLICT/REDUCED



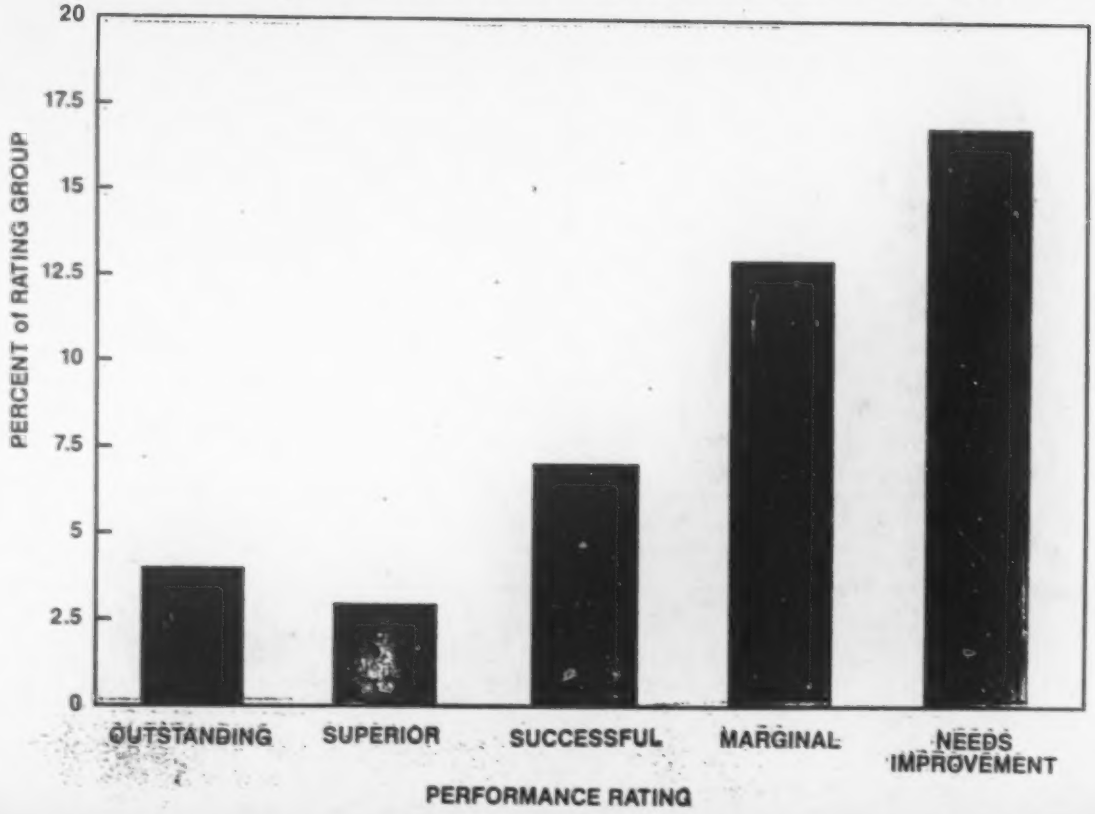
66%

ENTRY LEVEL PROFESSIONAL CHARACTERISTICS

	NOSC				NWC			
	FY 79	FY 81	FY 83	FY 85	FY 79	FY 81	FY 83	FY 85
REQUIREMENTS	35	38	134	100	85	50	131	171
NUMBER OF NPs/JPs HIRED	24	33	97	68	35	49	133	175
AVERAGE GPA	3.52	3.52	3.57	3.53	2.73	3.30	3.30	3.20
ACCEPTANCE RATIO	42%	33%	54%	63%	22%	26%	29%	25%

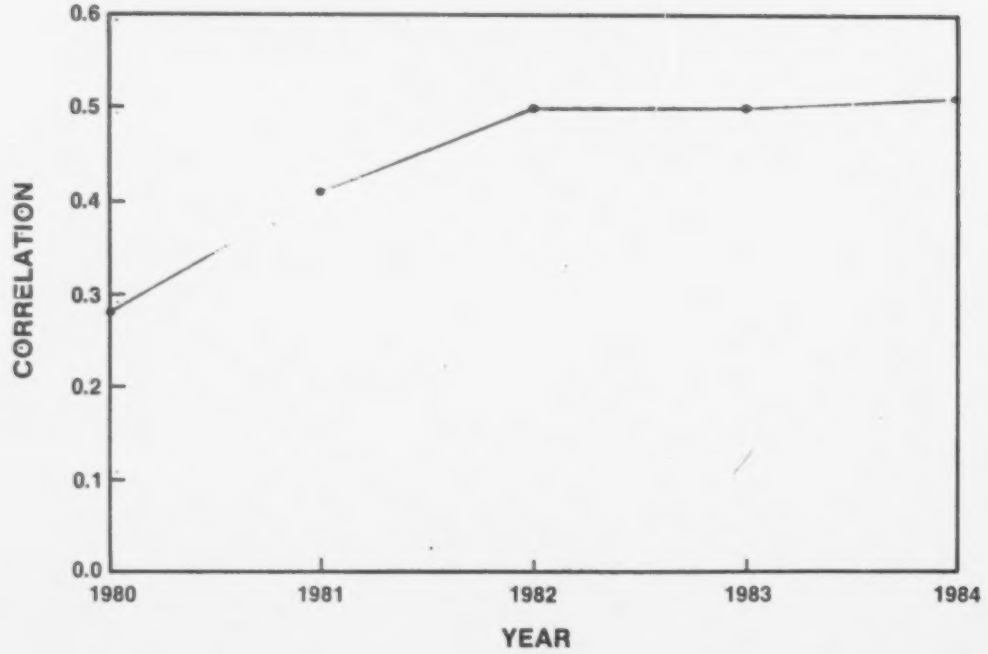
NOSC

All Separations From 1982 - 1985



NOSC

Salary-Worth Comparison



NOSC

Experience to Date

Total Payroll

Date	Number of Work-Years*	Total Payroll	Average Salary
1980	2571	$ 67.1 M	$26,100
1985	2939	$101.1 M	$34,416
1985 (FY 80 $)	2939	$ 79.0 M	$26,889**

* Excludes overtime

** Total increase of 3.0% over 5 years, or 0.6% per year

NOSC

Cost Measurement Options

	DEMO vs PRE-DEMO	DEMO vs NON-DEMO
TOTAL PAYROLL	DESIGN FOCUS	
GROUP AVG SALARY		OPM FOCUS
SALARY DISTRIBUTIONS		"HIGH GRADE" COMPARISONS

NOSC

Experience to Date

Average Technician Salaries

- NOSC technicians' salaries grew 1.3% more than at NSWC from 1980 to 1984 (0.3% per year)
- NWC technicians' salaries decreased by 0.4% relative to NSWC in 4 years (0.1% per year)
- Salary differences largely attributable to residual effect of conversion to Demo and variability in numbers of new hires

NOSC

Experience to Date

Average S&E Salaries

- After 4 years, demo lab S&E salaries have grown 6.3% more than at control labs (1.5% per year difference)

- Cost difference break down:

Conversion costs	1.2%	Demo-related
Starting salaries	1.9%	
Migration above midpoint	2.4%	
Control lab population shift	0.7%	Non-Demo

NOSC

Experience to Date

S&E Cost Difference Explanation

"These data suggest that the demonstration lab increases in salary do not differ substantially from historical patterns, but that control lab salary increases have been small, at least in comparison to historical growth at the demonstration labs. (Historical data on annual salary growth at the CONTROL labs are currently unavailable.) It is the contrast between these differing patterns of growth that produces the increasing differences in salary costs documented in this report"

- From Office of Personnel Management, Report III Jan 1985

NOSC

Summary

- NOSC salary increases under the Demo Project do not differ substantially from historical patterns
- Transition costs and increased starting salaries are not an inherent part of the Demo Project
- Evaluation of Demo Project salary costs should be based on their CONTROLLABILITY, not on comparisons of Demo and control labs actual experience

Mr. MERROW. The external evaluation, as we refer to it, is the responsibility of the Office of Personnel Management as required under the Civil Service Reform Act legislation. They have emphasized in their analysis and evaluation the external applicability in things that have been tested here at the Naval Ocean Systems Center and at China Lake to other types of Federal activities. They have also utilized control laboratories, the Naval Surface Weapons Center and the Naval Air Development Center, as control labs for comparison purposes with our two demonstration laboratories. I'll show you some results of some of those statistics in just a moment.

The internal evaluation which I have been responsible for here at NOSC is primarily focused toward helping center management to evaluate the project as it is ongoing, to get quicker turn-around, and quicker feedback on things that are under our local control to make minor modifications to; and then I also provide support and liaison to the external evaluation effort at the Office of Personnel Management.

The next three pages, 2, 3, and 4, in that handout showed some of the changes that were occurring in people's attitudes at the four laboratories, the two control laboratories, NADC and NSWC, and the two demonstration project laboratories, back in the period from 1980 to 1982, right after the system was put in place here. Also, I might mention that the merit pay for the GM employees, grades 13 to 15, was being introduced at NADC and NSWC at the same time.

But if you look at the differences in the response of managers and supervisors to statements concerning how effectively they can motivate their employees with financial rewards, you'll see that, for example, at NOSC we went from having about 77 percent of our managers agree with that statement that it is difficult to motivate employees, down to having less than 40 percent agreeing with that statement; in other words, a shift of about 30 percent in just a period of slightly over 2 years. Whereas at the other two control laboratories, we were seeing virtually no change or very small change.

On page 3, a similar type of change is occurring, with NOSC and NWC having considerably less people agreeing with that negatively-worded statement than what was occurring at NADC and NSWC, again, while they were also introducing the Merit Pay System. So the system that was being put in place under the demonstration project obviously was viewed as having more of an impact and granted more authority to the managers to affect their employees' pay.

The last of those three figures there, has a statement relative to supervisors and their ability to manage being restricted unnecessarily by rules and regulations. Again, NADC and NSWC, the control labs, tended to show an increase over time in that general area, whereas we were getting a significant decrease in the number of people agreeing with that statement.

Now, we have also used attitude surveys here at the center. In fact, we have submitted one to all of our employees each year since the inception of the project—in fact, since a year before it. The next two pages there show some of the results from those internal attitude surveys. I won't get into detail on those other than to indicate that in most of the areas where we have statements relative to

the demonstration project, there generally tended to be somewhere on the order of 25 to 35 percent of the employees disagreeing with statements about, for example, "I am in favor of the project" or "the project will probably not affect me adversely."

And, of course, one of the things we wanted to find was: Could we characterize that particular group of employees? What characteristics did they seem to indicate that might explain why they had a negative attitude toward the project?

If you then look at the matrix on page 6 there, we found that the best correlation we could come up with was to look at a combination of what rating did the employee actually receive compared to what rating the employee believed that they earned. If you look at that chart there, the abbreviations are "far exceeded," the rating which we now call "outstanding"; the "E" is "exceeded," which we now call "superior;" the "M" was "met objectives," which we now call "successful." And looking at the diagonal there, the numbers along the diagonal correspond to those employees who got exactly the rating that they thought they should have gotten.

The numbers below the diagonal—for example, the 167 and the "E" rating and "FE" rating believe earned—indicate that 167 employees in this particular year received less than what they were expected. They expected the highest rating; they got the second to the highest rating.

If we take all of those employees below the diagonal, a total of 491, and if we look at their responses to the project, that is the group we found that was the most negative. They had a viewpoint that the project was not good, which appeared to be based on the fact that they got a rating lower than what they expected to get.

Since we are working with a fixed resource environment, obviously we can never reward everybody to what their own expectations would come up to, so that the source of the disappointment was not necessarily that they believed the system was bad, but that the system had given them less than what they had hoped to receive. So this was at least a revelation that there was no particular group of employees, as separated by age or occupation or so forth, that was negative. It was basically those who were dissatisfied with the rating they had received.

We also, on the next page, did a look at the classification system. We asked supervisors who had been under both systems whether they felt that the new classification system was simpler, more understandable; 85 percent agreed with that statement; whether paper work had decreased, 80 percent agreed with that statement; and whether conflicts and pressures involved in the classification process had been reduced, and 66 percent agreed with that statement.

I think basically the conclusion here has been that the classification system has been very effective and has caused very positive changes in the way in which we classify employees.

Senator STEVENS. Before you go on, how do you figure that 24 percent don't know about the conflict or pressure reduction?

Mr. MERROW. That's either a don't know or undecided or "I really didn't see any change occurring" type of thing. That's a composite of either people who had no opinion or had not observed any conflict or pressure before or after.

You can see there we've shown the changes that have occurred since 1979 at 2-year intervals, and the number of employees that we have gone out attempting to hire, the number of new employees that we have been able to hire—these are scientists and engineers now, new professionals coming out of college—the average grade point average of those employees and the acceptance ratio, what percentage of those that we made offers to who actually accepted those offers.

As you can see at NOSC, our grade point average has been basically unaffected. We were already recruiting very high-quality employees, 3.5 and above, and that has stayed basically in the 3.5 to 3.6 range. Our acceptance ratio, however, has gone from a range of 33 to 42 percent, up to the 54 to 63 percent range, so that we are more effective in getting the people that we are attempting to go after. Notice also that we increased the number of people that we were hiring during that same period rather substantially as well.

China Lake's data is shown there also. They did have a major increase in their grade point average, but did not see that same type of change in their acceptance ratio.

The next graph takes a look at the ratings that the people who have departed the center received in the year prior to when they departed. What we did—for example, if you look at the first bar, that says that of those people who got the highest rating, the outstanding rating, that approximately 4 percent of them left the center the year following receiving that rating; and about 3 percent of the superior rating. But as you move to the lower ratings, the successful rating, about 7 percent of the people who received that departing; and for the bottom two, we are up in the 13 to 17 percent range. So in other words, the people who are getting the lower ratings are more likely to leave the center than are the ones receiving higher ratings.

Representative LOWERY. Have you done a summary analysis prior to the project being in effect?

Mr. MERROW. It would be difficult to do, because almost all of the employees, prior to the start of the project, received a satisfactory rating, about 98 percent. So it's almost a meaningless statistic.

The next page shows the results of a study we did here to look at how we are impacting the overall salary structure within the organization. The system that we are using, of course, results in an incremental change in the salary, not an overall adjusting of salaries. And we looked at the overall salary structure to try to see if we were correcting a lot of the salary inequities which many of us knew were present within the organization.

The way we gathered this data was to select a random sample of our division heads and to ask them to rank order how they would pay their employees if they were totally free to set salaries. In other words, they could pay any employee working for them whatever they thought that employee was worth. Then we took that rank ordering and compared it, using a correlation statistic, with the actual salaries the employee was receiving.

Prior to the start of the project back in 1980, that correlation coefficient was down at 0.28. It has subsequently moved up into the 0.5 to 0.6 range, indicating that not only are we doing a year-by-

year rewarding of the better-performing employees, but we are correcting the overall salary structure.

I'd like to address the remainder of my comments to the topic which has drawn a lot of attention relative to the project, and that is the cost that has occurred here and at China Lake in comparison to costs at the two control laboratories. The first of the cost graphs there "experience to date" shows the total payroll and number of workyears at the center in 1980 and in 1985, and then the average salary in the right-hand column. The third line corrects that average salary in 1985 to fiscal year 1980 dollars; that is, take out the comparability increases that occurred.

As you can see, comparing the 1980 and 1985 in fiscal year 1980 dollar figures, we've had an increase of $789 in our overall average salary here at the Center. That represents about a six-tenths of 1 percent per year increase.

In the years preceding the start of the project, we were typically getting about a half a percent per year increase. So our figure that Randy Riley had mentioned of 2.3 percent, which we used as an historical basis for our pay pool, came out fairly close to matching our historical pattern of overall salary trend at the Center.

Now, I'd like to also address some of the other ways that you can look at costs. And to put it in perspective, the next chart shows a matrix of cost measurement options, of three different types of measures you can use: The one I've just shown you, total payroll; average salary for groups of employees; and salary distributions, in other words, how many people are paid over or under certain levels. And two ways of making that comparison, either over time—that is, the demonstration laboratory during the project versus before the project—or comparing the demonstration laboratories versus the control laboratories, the nondemo laboratories, over the same time period.

The entry down there labeled "OPM Focus" indicates that what their evalation has focused on has been the average salary of groups of employees here and at China Lake versus at the control laboratories. There have also been publications showing salary distributions, such as how many high-grade GS–13 to GS–15 equivalents there have been at the various centers. The focus of the overall design of our system was up there at the top, keep total payroll at about the same as it had been historically, but the evaluation has, on the other hand, focused on average salary here versus at the control laboratories.

Senator STEVENS. What about total costs of the system on a payroll basis?

Mr. MERROW. The only costs we have been able to really identify as being significant to this system versus the other system has been in the payroll area. The costs of administration and so forth are either so close to the same or so difficult to determine as to—we have not been able to show any differences nor has OPM in their studies. The cost differences have focused basically in the area of what is different in the average salaries paid to either the entire Center or groups of employees within the Center under the two systems.

For the costs relative to the technician category of employees, the three summary reports there show that at NOSC we had a 1.3

percent increase relative to the NSWC technicians, or three-tenths of 1 percent per year increase; while at China Lake they had a one-tenth of 1 percent per year decrease. And the conclusion of OPM in the area of technicians was that any salary differences that have occurred have been basically due to the effects of conversion to the demo. That is, the within-grade increases were paid to the employees here; they were not paid to the employees under any merit pay conversions. And in the variability in the numbers of new hires; and that is, changes that are completely outside of the effects of the demonstration project.

On the scientists and engineers, a larger population of employees, the two combined demonstration laboratories had an increase which was 6.3 percent more than what occurred at the control labs, or 1½ percent per year greater. If you look at how that breaks down, what are the contributing factors there, the conversion costs, the payoff of the within-grade increase, contributed 1.2 percent. The higher starting salaries which Mr. Riley mentioned that we are able to pay, in comparison to the other Federal activities, has contributed 1.9 percent. And the OPM identified the 2.4 percent figure as migration above the midpoint; in other words, one of these changes in salary distribution. However, it's our belief here that that really should be attributed to the change in the overall growth pattern in salaries that occurred here versus what occurred at the control labs. That is, we based our 2.3 percent or 2.4 percent figures on what had been our historical patterns here, and this data was being compared with what actually occurred at the control labs.

And it was obvious to us that what had happened at the control labs was that they had grown at a rate that was less than what we had used as our historical base line for determining the size of our pay pool. So if it were a desire to control and adjust that figure so that it came out even, what you would do would be to simply turn down the increase of the level that is going into the pay pool. That makes our incentive pay work, and you could match or achieve whatever level or rate of growth that you would like.

In fact, this was recognized within the appendix to the OPM cost report, as I've included a statement taken from that cost report. The last sentence emphasized that it is the contrast between the different patterns of growth that produces the increasing differences in salary costs documented in this report. So it's not necessarily an inherent cost or something that would have to go along with the overall project itself.

So in summary, relative to the issue of cost, we feel that the costs that we have experienced under the demonstration project are not significantly different from our historical cost patterns on salaries; and that the transition costs and the increased starting salaries which have occurred were an option that we elected to perform. They are not an inherent part of the project and certainly could be under the control of the agency or Congress itself as to how that would be in place in any project in the future. If we are to evaluate the project on the basis of cost, we really should look carefully at how controllable are the costs, not actually what did occur during the actual experience of the project.

Senator STEVENS. Thank you very much.

Congressman, do you have any questions before I get into the details of this? I'd be happy to have you ask questions.

Representative LOWERY. Yes, Senator, I do, to any of the panelists, or all of them. As the Senator pointed out, the demonstration project was applied at these two laboratories, very top heavy with engineering and scientific personnel. What would your observations be on a possible general application to the rest of the Federal work force, of the Department of Interior, for instance, or Health and Human Services or, for that matter, even the Department of Defense—enlisted military personnel?

Mr. HILLYER. Well, let me answer the latter first. The system is primarily designed for white-collar civilian employees, and would not be applicable to the military nor without major revision—or addition, I should say—would be applicable to the blue-collar work force.

You're quite right, as I said in my opening remarks, that we designed the system with the scientists and engineer primarily in mind, because that is the emphasis of this place, at the Naval Weapons Center. We then applied that system to administrators, clericals, and paraprofessional technicians and/or specialists. We found it broadly applicable. I think we made a mistake when we first applied it to, in particular, the administrative people. That mistake was, we set our pay bands wrong, so we didn't have comparability with the private sector. We later rectified that.

My judgment is that if one is careful in how you set the pay bands, so that they offer some comparability to the private sector—and, indeed, what we've done here is installed a private enterprise personnel management system in a Federal institution—I believe that the system is broadly applicable. If you'd asked me going in if I thought that was true, I would have expressed some doubts. Today, I don't have any doubts.

Representative LOWERY. Do you others have anything to add?

Mr. MERROW. I think that one area in which—I think clearly—we've seen across-the-board acceptance of applicability is in the classification system. I think that the approach we've used here and the slightly different but similar approach at China Lake would have applicability to virtually any type of employee.

I think the pay system that we have employed and the performance appraisal systems are similar enough to those that have been introduced in the merit pay and other types of systems within the rest of the Federal Government. There would be no problem there. I think the key thing would be the identification of the right groupings and bandings of the pay levels and so forth, so that the appropriate levels of difficulty within each of the number of different types of job categories would be properly recognized.

I have just one additional comment. We don't have many opportunities to do pilot studies, until the Reform Act came along. The personnel people involved certainly wanted to help design a system that might be broadly applicable. There was chance to change the classification system. And I have worked personally in industrial, investigative, and the personnel field in at least a couple of Government agencies; have done a lot of activities. I see broad application. But, of course, I'm right here in the project. And, naturally, I feel it was broadly applicable.

Representative LOWERY. What about blue collar?

Mr. RILEY. I don't think it's designed for blue collar. The blue collar system is not that different from the project, but I think the blue collar classification system—personal opinion—operates just fine as it is.

Representative LOWERY. And military?

Mr. RILEY. I can't comment on the military. I don't have that much experience in that area, sir.

Senator STEVENS. Thank you.

Representative LOWERY. Senator, I have to run. I thank you very much for bringing the committee to San Diego. I'm glad to have you here any time. Fascinating presentation.

Senator STEVENS. Well, thank you for paying attention to what we're doing here in your district. Pleased to have you here.

Representative LOWERY. Always a pleasure, as the chairman of the Senate Defense Appropriations Subcommittee, to attend.

Senator STEVENS. It was my other half—chairman of the Civil Service Subcommittee—appearing today. I want to make sure everybody understands that.

I have the impression that there were changes in the management system as far as how it was applied. Is that right? You all have changed this beast as it grew. Right?

Mr. HILLYER. Yes, sir; I wouldn't say we made radical changes and we didn't change anything that required a change to that basic framework that I described. I used the analogy of the frame of a building whose bricks are flexible, where we changed some of the bricks but didn't change the framework.

One of the mistakes we made when we first started the project was we talked about having a system which coupled pay to performance, and then we implemented one which coupled pay increased to performance. So it was not possible to tell someone they were doing a good job without giving them a pay raise at the same time, and yet they might be adequately paid for the good job they were doing.

Senator STEVENS. In terms of follow-up on this, was there consultation with the employees as you evolved this system, or was it a management decision as to how it evolved?

Mr. HILLYER. No, sir. In the original design of the system, those centers used employee groups to make inputs and make suggestions. If any one person was responsible for pulling that design together from those inputs, it was Mr. Riley. Then during the program we maintained employee groups that make continuing recommendations about the system. They evaluate the suggestions or complaints of other employees. And we have made subtle changes, as well as a couple of more radical changes, as a direct result of employee inputs.

Senator STEVENS. Mr. Merrow, referring to the agreed/disagreed chart on page 5.

That's not broken down into the pay bands.

Mr. MERROW. No.

Senator STEVENS. How do we know that the agrees aren't all the people at the top level, the top of the system, and the disagrees aren't all at the bottom?

Mr. MERROW. We did separate analyses and correlated the responses to these questions, of course, according to people's age groups, DP versus the professional scientist and engineers versus the administrative and so forth, within the structure. We tried to do every correlation that we could based on the demographic data that was a part of the answer form for the questionnarie. This just shows you the summary responses of all.

Senator STEVENS. Where are those results?

Mr. MERROW. We have put out a report each year. I have a copy here which shows it for the 1984 report, which summarizes that in the appendix.

Senator STEVENS. The panel tells me we have that. We'll study that.

All right. How much of the distribution of the incentive pay was responsible low point and high point, and how much of it was just the base pay increase?

Mr. MERROW. Basically, what we did was allowed the supervisors and managers the flexibility to grant pay increases across the board to whatever employees, whether they were above or below the midpoint, at whatever level they were within. The only restrictions were that if you gave the person an increase and they were above the midpoint, that increase had to be at least two incentive points, so that you were really recognizing very good performance and not just simply somebody who was doing what you would expect them to do.

The other restriction was that people who were at the top of the level could not receive, of course, a continuing increase, but would be required to receive a bonus payment. So that there was really no fixed or legislated breakdown or distribution of the payouts in any of these categories.

Mr. HILLYER. You may recall, sir, that Mr. Merrow had a chart earlier that showed that the increase—total increase of cost relative to the control level totals 6.8 percent.

Mr. MERROW. 6.3 percent.

Mr. HILLYER. 6.3 percent, 2.4 of that is due to that factor, by OPM's measure. But I'm sort of taking a little exception to that. I think that's an approximate answer to your question.

Mr. MERROW. Their interpretation was that the higher numbers of people that are above the midpoint now represent about a 2.4 percent net increase in salary compared with what the number of people who had moved above the midpoint at the control labs was.

Senator STEVENS. Mr. Landry has given me a May 12 of this year memo on the demonstration project pay point values for 1986, and it indicates that the prior award is 32 percent higher for the DP-1 and -2 as compared to the DA-, DS-, DT-1, -2 and -3. Why is there the so great disparity in terms of the pay point values?

That's based on salaries that are essentially the same.

Mr. MERROW. Yes. The intention was to try to keep the rate of increase of employees' salaries within these pay groups to correspond to approximately what they would experience in the previous or in the outside GS system. And there were certain groups of employees, particularly those at the lower levels, that would actually be receiving promotions at a higher rate than are received as you move further on up the scale. So rather than having the 2.3

percent be the size of the pay pool and therefore indicate the size of the point value, it was determined that we should increase that value to 3 percent for two of those particular categories of employees, to more closely match what they would experience in the rest of the civil service as part of their career professional path.

Senator STEVENS. Well, I have two questions. I don't know which one of you really want to get into it. What's happened to comparability? I don't see anything showing what the outcome of your system is to comparability out there in the community.

And second, to what extent has the increase for the professionals--engineers and scientists—come from reducing the increases and the in-grade compensation level available for those who are in the grades below that? To what extent has there been a bleeding of money from the lower grades into the higher grades?

Mr. MERROW. Up until last year, we had separate pools that were awarded directly to each individual group of employees. In other words, the people who were in the top group, the DP-4 category, had their own separate pay pool; and therefore, all the money that was basically generated, according to their average salary, would be returned to that group directly.

Last year was the first year we had introduced the concept of allowing payouts to be given across the board, regardless of whether or not the money had been generated, if you will, by the contribution of that particular group. There was not a significant difference in terms of the overall distribution. I don't have here with me the exact figures on that, but the variation across employee groups was not something that was significant in terms of one group receiving a much higher or much lower than what their contribution was in the overall pay group.

Mr. HILLYER. We have no evidence of migration of dollars from the lower pay levels to higher pay levels, or of dollars—I think you asked two questions there—from the nonprofessional, nonscientific and engineering classifications to the scientific and engineering classification.

Senator STEVENS. I'm told by staff that in 1985, managers received an average of 2.8 pay points and nonmanagers received an average of 1.8 pay points. How does that come out?

Mr. HILLYER. Yes, sir. We make our best people managers.

Senator STEVENS. The system was designed to make sure we've got the best scientists and engineers and professional people, not the best managers.

Mr. HILLYER. The system is designed to allow us to reward scientists and engineers staying in scientists and engineering disciplines.

Senator STEVENS. But that reward ends up with 1.8 for them and 2.8 for managers.

Mr. HILLYER. 1.8 for them on the average, sir. But you'll find that many of those people, many of those people—and I think later Mr. Towle can have those numbers for you—many of those nonmanager SD's have progressed up the chain. The fact is you do tend to pay your supervisors and managers more money because they accept more responsibility on the average. But the system allows us and we do indeed promote and give pay raises for people with good scientific and engineer experience and performance.

Senator STEVENS. Isn't this system becoming very subjective? In effect, isn't the manager group telling itself it's got so much more responsibility, and because of that subjective determination they are entitled to more pay?

Mr. HILLYER. I think the answer to that is no. I think if you compare with other merit pay systems, you will see the same thing happens, that indeed you tend to reward successful managers and supervisors for taking on the added responsibility. So I don't think there is a bias there.

Senator STEVENS. Do we have records to show that people migrated from the engineers, scientists and into the managerial group? Is that what you're saying? I thought the objective was to make sure they stayed on the bench.

Mr. HILLYER. The objective is that. That's not what I'm saying. If you heard me say that, I must have misspoken. We do have a dual career ladder for our people. You can stay technical and get to the highest salary levels on the center. If you're asking about migration from the management ranks those are distorted at this center because we did a reorganization 2 years ago which eliminated 30 percent of the supervisorial and managerial positions, and returned a lot of those scientists and engineers to doing hands on the hardware or software bench work. So those data are somewhat distorted.

On the other hand, it was exactly the existence of the demonstration project that allowed us to do that and reclassify those people back into competent technical positions without a reduction in statute or salary.

Senator STEVENS. When we first started this project here, we took people who were managers or used to the normal performance rating system under the civil service system. They were used to having to review the performances of people under them, and they gave them performance ratings that meant really very little. We tried to change it a couple years ago. We did blend in a series of years' performance rather than 1 year, and it has some impact, really, when it comes to reduction in force. It's had no effect on pay in the general system, unless putting into effect some system like this. Are we in agreement with that? This is a system that put into effect some kind of incentive for performance based upon an appraisal of that performance. Right?

Mr. HILLYER. Yes, sir.

Mr. RILEY. Yes, sir.

Mr. MERROW. Yes, sir.

Senator STEVENS. Now, what training did you give those managers to change them from people who were making a performance rating that made no difference to one that makes a difference in terms of compensation for the people who are working under them?

Mr. RILEY. We gave them a series, and it was different at the two centers, but we gave them a series of orientations with the demonstration project and how it's performance factors work, once we figured those out. Additionally, we had some outside help at this center. At the Naval Weapons Center, I think they did it internally, in terms of teaching managers some skills and setting objectives, because ours is an objective oriented system. Clearly that was

a growing learning experience, and our system has evolved as a result of that.

Senator STEVENS. What kind of training did you give them in terms of giving them an ability to evaluate the performance and the attainment of the goals?

Mr. HILLYER. We had detailed, formal courses to train people to do that.

Senator STEVENS. On evaluation performance?

Mr. HILLYER. Yes, sir, as well as other aspects of the demonstration program.

Senator STEVENS. The judgment has been made that these two demonstrations are complete now, that an evaluation of them would show that the overall concept could be applied to the whole civil service. Do you all agree with that?

Mr. MERROW. Yes, sir.

Mr. HILLYER. Yes, sir, within the constraints stated in order, white collar force, sir, white collar civilian force.

Senator STEVENS. Incidentally, I helped authorize that extension. We authorized 10, didn't we?

Mr. LANDRY. Yes.

Senator STEVENS. And we've had two. We authorized them to go 5 years, and gave you an extension.

Mr. HILLYER. Yes, sir.

Senator STEVENS. But we've had just two systems, both in the Navy, both in highly specialized categories. Now, you've reached the conclusion—I'm going to argue about your conclusion. Have you had any problems with the application of this project that aren't discussed in these evaluations?

Mr. HILLYER. Yes, sir. As I stated earlier, we made a mistake in entering our administrative people. We also entered people into the program incrementally. We entered the S and E's first, and then technicians, then admins—I've forgotten the order. The last group we entered was clericals, and we weren't as careful as we should have been in entering the clericals. We didn't give people as much training in dealing with the new personnel system. We didn't give the clerical employees themselves as much training. And I think it was a mistake.

We had some trauma there, both from their supervisors and from the clerical employees themselves. I think we've since rectified that. But the lesson to be learned is you can't just put a personnel system into place without spending some money and time getting people appropriately trained to implement it.

Senator STEVENS. Are you familiar with performance budgeting?

Mr. HILLYER. No, sir.

Senator STEVENS. Well, the concept basically is that Congress would provide you a lump sum for this project. Of that lump sum you would have to reserve 20 percent. If you perform your objectives with the 80 percent, then you can use the 20 percent for bonuses based on your performance. If you don't perform in the 80 percent, you have to use the 20 percent to meet your costs, of course, because you need more people and costs increase. You have to meet your goals. So if you get to the point where you've got more than 100 percent, you have to let some people go. It's a performance budgeting concept without the rigidity of these bands.

You've broad-banded. OK? This concept is a single band. You've got a job to do. You hire the people, you pay them, you get it done. If you get it done, then everybody gets a bonus and your managers decide who gets it.

Now, do you believe that there is a follow-on to this demonstration, that this project is the end-all as far as reform is concerned in Government pay concepts?

Mr. HILLYER. Absolutely not, sir. I couldn't possibly tell you that we have the ultimate personnel system here. All I can tell you is that we have one that's better than the one we had, and is better than the one that other organizations similar to ours have today, where we've made a comparison.

Senator STEVENS. But, I haven't heard two things. I don't want to get argumentative. In terms of performance, you had goals and you achieved them. Right?

Mr. HILLYER. Yes, sir.

Senator STEVENS. But, did you achieve more than the goals? I mean, the concept was to instill an exceptional performance, and you've rewarded that. But, has it been what you would call an exceptional unit compared to its prior performance? Secondly, it costs more. It hasn't cost less; it cost more.

Mr. HILLYER. Yes, sir. I will not be able to prove to you what I am about to say because it must be subjective. It's very difficult to get a technical answer to your question due to the nature of the work in these R&D centers. If we were manufacturing bolts and nuts or missiles that came out the door, you could count them and measure the cost of producing a nut or a bolt or a missile.

Senator STEVENS. I'm involved in that too. Every time they come out, they cost more, too.

Mr. HILLYER. Yes, sir. But in the R&D environment, it's very difficult to get a measurable of quantity of performance. It is my judgment—and I've got enough experience that I think I can make it—that the technical staff is better at this center than it was 6 or 7 years ago. It's also my judgment that that's true at China Lake, since I have experience at both. We've retained better people.

It's my judgment that our people are better motivated. It's my judgment that we have better communications between our supervisors and our employees than we used to have. And good communications between supervisors and employees leads to productive work.

So I believe that the cost effectiveness of the system is there. That is, it does cost more. And I believe we have a higher quality of people, we've attracted a higher quality of people, and we've retained a higher quality of people, and we're doing a better job of motivating them. And I believe that has more than offset the 6.3 percent increase in costs.

Senator STEVENS. Last question. You don't deal with any employee organizations. Right? You have no unions?

Mr. HILLYER. That's correct.

Mr. MERROW. No unions.

Mr. RILEY. Yes.

Senator STEVENS. No employee association, representatives, or any kind of employee organization structure. Right?

Mr. HILLYER. That's true.

Senator STEVENS. Doesn't it give you a little bit of a problem to apply the system to areas where we do have those?

Mr. HILLYER. No, sir, it doesn't give me a problem. I've thought that through, and I've tried to think that through from the viewpoint of union representatives. If I were on that side of the street as opposed to the management side, I'd find this program acceptable because it gives me room for negotiation, perhaps more than we have now. I'd like it if I were that, but I know that's not what they have said. But if I were on that side of the street, I'd be saying this thing looks pretty good; it gives me some room for bargaining.

Senator STEVENS. OK. I thank you very much, and I'm sure everyone does. I appreciate you taking the time to start us on these records in the field.

Mr. HILLYER. My pleasure, sir.

Senator STEVENS. We'll take a couple of seconds while we have the next group come up. The next group is Mr. Hartsough, Ms. Millikan, Mr. Campbell, Mr. Pugh, Ms. Jarnagin, and Mr. Ledbetter.

I think we ought to start and get the ground rules set here because, you know, this isn't an inquisition. I'm not going to get anybody embarrassed. And, if anybody ever gets any criticism from what you've said here, you just let me know and we'll show them what a merit system really means.

We've got to have some information and honesty in this evaluation. There could be some people who are employees in other Government organizations that don't know anything about this project. We need to understand fully how it can be expanded or whether it ought to be expanded. So, we've asked you to come here today to help us out. I hope you've got that attitude, and all of you who will be here today. We're really searching. Whether you know it or not, we did this for a series of years before we changed your retirement system. We went out to listen to people.

We've had an outline of this as far as the managers are concerned. Some of you are managers, others are not; but, I'd like for you to tell me who you are and what your position is in this organization, what is your function, and then make whatever comments you want.

You know, it's going down in the record so that my colleagues, so their assistants here can highlight this record. That's what they do, you know. They take one of those highlighting pencils and they say, "you should have been here to hear this one." They all have different points of view. I don't try to understand what their points of views are. I have a tough time trying to figure out what mine is on something like this. But, I'm trying to learn everyone's point of view. You all have lived through this.

Now, I want you to just try to be fair and honest in dealing with us. We're not here for you to sell something to us. It wouldn't do much good. I'm not ready to buy it yet anyway, because it takes some time before I buy recommending putting it out to the whole Government. I know it's got the guts of a good proposition for change, but we need to analyze it a little bit more and make sure that it's the kind of umbrella we want to put over everybody, who are we going to exempt from it, that sort of thing. We are going to get that sort of information from people like you, and I hope you'll help us.

So why don't we just start off right here on down the line. If you already have something else you're ready to say, don't let me dissuade you. Except I'm going to tell you, I'm going to hear from about 30 people between now and 1:00 o'clock, so I'm not looking for redundancy. We're looking for your individual impact. You know, I want you to be subjective now, if you can, in terms of what this system means to you, how you feel about it. If you don't like something about it, tell us.

As I said, no one is going to give you any demerits for saying that. I'm going to assure you of that. Be sure you pull the mike up, because this young lady has a more important function than I do. I can hear you, but she's got to make sure that their bosses can read what they think is important. OK?

TESTIMONY OF MARK S. HARTSOUGH, FACILITIES ENGINEERING OFFICE

Mr. HARTSOUGH. OK. Can you hear me all right? Howdy, Mr. Chairman. My name is Mark Hartsough. I have over 17 years' Federal service. I've progressed from wage grade to GS, and now I'm in the demonstration project. I've been here about 2 years. I'm a contract specialist with the facility's engineering branch.

I feel that the demonstration project is a good system compared to the GS and WG scale that I was under before. Basically it all boils down to the concept of the manager and the ability to evaluate the people under you and to instill good performance, which I think the demonstration project has the ability to do if the supervisors are trained properly, and the employees also.

I think they have to be aware of the full parameters of the project; and to do that, they are evaluated semiannually, in which they establish the objectives of the employee. It lets the employee know what's expected of him or her, and it instills high performance, I feel.

There are a lot of employees that may know what they are there for, but they don't know what their opportunities to excel are. I think, in the short time that I have been here, I've seen that in a lot of other employees, that are motivated by the demonstration project. As I progressed up through the different grades, I got QSI's and sustained superior achievement awards. Since I've come here, I've gotten two points and higher, and I feel it's very rewarding. It gives you the potential to excel and expand your career.

There are some negative points insofar as some managers don't feel that they have the latitude to ask for more points. If they have a good year with their group, they are only allotted so many points or so much money, and they have to do with that what they can, so they—an analogy of that would be they would say, "OK, John and Mary, you both did real well, but I don't have enough to give you both 4 points, so I'll give you 4 this year, and next year I'll take care of you." I'm not saying that is predominant throughout, but it does happen. Those are some complaints that I've heard.

Basically that's all I have to say.

Senator STEVENS. They've got the carrot out there, but when they really get to it, there is not enough of the carrot to really go around. Right?

Mr. HARTSOUGH. Right.

Senator STEVENS. Are you in a position where you can make any performance ratings yourself?

Mr. HARTSOUGH. I do provide input for people that I have worked with.

Senator STEVENS. I see. Thank you.

Why don't you take that mike right over in front of you so everyone out there can hear you too.

Ms. MILLIKAN. OK.

TESTIMONY OF BETTY MILLIKAN, TRANSPORTATION BRANCH

Ms. MILLIKAN. I'm Betty Millikan, and I've had 18 years' experience in the Government. I was in personnel, and I've been an employee and supervisor under both systems. At the moment I'm head of the transportation operations branch. I have been there 2 months; just before that I was an employee.

It has a broader scope, the demo project, in our duties that can be assigned under these objectives. We are not into a narrow area. We go in for our objectives and talk to the supervisor, now I talk to the employees. We set up the objectives for the year of what they want to plan to do with their career in transportation, under the old system we couldn't do this.

Let's see. How do I want to put it? Two people come aboard and they're working the same job as the old-timers, but the old-timers in the old system would have the seniority and would be paid more, and you'd have to wait all those years for steps, and you may be doing the same grade of pay and you were locked into that grade. Now with this demo project you can award these people doing the same type of work, and maybe even a better achiever than the old-timers, and we don't lose them, and in the transportation field this is important.

Senator STEVENS. Do you lose old-timers when that happens?

Ms. MILLIKAN. No, because it gives them the incentive to earn points out there. I mean, you have to do something to achieve. You know yourself, everyone knows that you kind of get in a rut sometimes, but this gives you an incentive to go ahead.

Senator STEVENS. Well, I see graphs that show people who got lesser ratings are leaving more frequently than those who got the higher ratings. Now, in that graph, though, are those the old-timers who are getting irritated because the young bucks are passing them by?

Ms. MILLIKAN. I can't speak to you from that because I'm in a service department down in supply. It may be true in the professionals.

Senator STEVENS. It's not true in your area?

Ms. MILLIKAN. It is not true down in supply from what I can observe, and I've been on both sides of the fence.

Senator STEVENS. How long have you been in the managerial group now?

Ms. MILLIKAN. Two months right here on this base, but I was employed for 9 years before that.

Senator STEVENS. And is that promotion based on this merit system, too? Is that on the basis of your past ratings?

Ms. MILLIKAN. No. It was this time I had to compete in the field when the traffic manager retired.

Senator STEVENS. I see.

Ms. MILLIKAN. So it was not a merit promotion at that time, no.

Senator STEVENS. Now, tell me about the time before you got your present position. You were under this system for that period of time you got rated each year?

Ms. MILLIKAN. That's right.

Senator STEVENS. What's your feeling about that rating period as compared to the prior time when you just got it and it didn't mean anything?

Ms. MILLIKAN. You mean under the old step raise?

Senator STEVENS. Right.

Ms. MILLIKAN. Well, I felt that if I achieved under the demo project, that I was going to be awarded and—I'm not sure I know what you mean.

Senator STEVENS. Did it work? Mr. Hartsough said he felt motivated.

Ms. MILLIKAN. Yes; very motivated to go for those points. And, of course, if you didn't achieve, you knew that you weren't going to get your comparability. You can withhold that for the poor achievers under this program. The morale is higher in supply, I know, in our section under the demo project.

Senator STEVENS. Well, thank you very much. I appreciate it.

TESTIMONY OF KENNETH CAMPBELL, OFFICE OF PROGRAM DIRECTOR FOR TECHNOLOGY

Mr. CAMPBELL. Yes, Mr. Chairman. My name is Ken Campbell. I'm an engineer. I've been with the laboratory for about 16 years. I came in as a GS-5 in 1968. So I've progressed up through the ranks, GS step at a time, up until I was a GS-11 or GS-12, at which time I went under the demo project. So I've had exposure to both the GS system and the demo project. I've observed certain of my peers progressing through that project.

The personal point that I want to make reflects on what Congressman Lowery said, and Mr. Hillyer, in that we are basing our salary on the performance of our people and not—not on the tenure or the time, the seniority that they have in them. Under the old system we could count and you could pretty much project what your salary was going to be for several years out.

In the system we have now, the salary that we received is reflected or comes from the performance that we do in our job. I think that's a much fairer way to do it. I think it's more productive for the Government. I certainly am more motivated in a system like that.

The motivation that I get from my job is recognition by management of the assets that I have in the job, the good job that I do. When that is recognized, that fosters more—more work out of me and a desire to achieve. That recognition comes about in many ways, some tangible, some intangible. Certainly the most tangible is the salary that we earn.

Senator STEVENS. Has there been any incentive in this system for self-improvement in terms of outside education and that sort of

thing, as far as you are concerned? Is there enough of an incentive built into it for that?

Mr. CAMPBELL. There's not a short-term gain. You've hit upon an issue. I received a fellowship from this laboratory to go away to school for a full year with my salary paid. I finished up on one of my master's degrees, and I did not have to come to work for a full year. I just had to go to school. I came back here and wound up getting a salary increase when I came back because I had been in the system for yet another year. There was no immediate cash reward for that, but the benefits from the learning and the investment that the Government has put in me, I hope I reap that investment from my better education, my understanding of the technologies that we deal with. And I am a technical person, certainly.

Senator STEVENS. What do you do?

Mr. CAMPBELL. I started out in circuit design, being a design engineer, more into systems design; and that is taking these individual components and building circuits that do a function, and then taking those collection of circuits and building systems such as a test instrument that measures receiver sensitivity. We have lots and lots of receivers out in the Navy environment. We have a hard time telling whether or not the receivers are working. They just pick up a lot of noise sometimes. They generate noise inside. You don't know if it's working or not.

One of the things I did was to design a small test unit that measures that sensitivity very quickly and very easily. We received a patent for that. That's another one of the feedback mechanisms that we have, of course, which is not unique to the demo project, certainly.

Senator STEVENS. Thank you very much.

Do you want to give Mr. Pugh that microphone there, please?

TESTIMONY OF JAMES PUGH, SURVEILLANCE DEVELOPMENT LABORATORY

Mr. PUGH. Yes; my name is James Pugh. I'm a scientist, and I've been here with this facility since 1963 and when it was originally the Navy Electronics Laboratory. I'm currently a DP-3.

I'm a DP-3. And my purpose for being here is to make a suggestion that I think would potentially benefit the demonstration project. If you wish, I'll make that suggestion.

Senator STEVENS. Please. That's what I'm here for.

Mr. PUGH. Great. My recommendations, that I think would improve the demonstration project, would strengthen the dual career path concept embodied in this plan. Namely, I would like to see us create separate pay increase pools for the managers and the supervisors, and one for nonmanagers. I know you spoke with Mr. Hillyer on this subject previously.

Presently, at the Naval Ocean Systems Center, managers and supervisors compete within the same pay increase and bonus pools with their subordinates. This practice fosters a perception that the dual career path concept exists primarily in name only. I think we heard statistics during the previous panel's presence here about 2.8 points on the average for managers and 1.8 points for nonmanagers, the justification being the managers are good people and se-

lected for that, and I have no arguments with that. The thrust of my suggestion would be to make that statement explicitly in the beginning and not have the technical people find out about it after the fact. That can be accomplished by creating a different point value within the manager and the supervisors pool, for example. There are several ways that this can be done. But I would feel more comfortable as a technical person if I knew what that difference was in advance. It might entice me or other people that are technically oriented to enter into the management field.

Senator STEVENS. I'm inclined to agree with you, but I had to have three pools. One is in the managerial, one in the scientific professional, and one in the general administrative group, so that there would not be what I call bleeding from one group to another. But maybe that makes it too complicated. That's a good suggestion, though.

Mr. PUGH. Well, I honestly believe that this suggestion would strengthen the project's dual career concept.

Senator STEVENS. I agree, but I want you to know that we have tried to stimulate performance. We had some hearings, and I found that in the smaller groups, people just got together and said: "Okay, there's nine of us. You three, you get the bonus this year, you three get the bonus next year, you three get the bonus the next year." Everybody knew they were going to get a bonus every 3 years, so we lost our productivity incentive. There's got to be another trigger on top of what you're suggesting, in my judgment.

Mr. PUGH. Perhaps.

Senator STEVENS. Yes; very interesting

Mr. PUGH. One of the criticisms for this suggestion is that the supervisorial and management pool would be too small to function, statistically, but if it went across the Center, in other words, if we treated managers and supervisors as a core, as officers are treated in the military, I think the concept would work.

As it stands now, each organization, I believe, to the division level at the Naval Ocean Systems Center here receives an amount of money to be awarded to the employees that's predicated upon the point value that each one of those employees brings into that group. It would be easier for me as a supervisor to know that I didn't have to compete with my subordinates in awarding those points when I made the allocation.

Senator STEVENS. Thank you very much, Mr. Pugh.

Ms. Jarnagin, pull the mike right up in front of you please.

TESTIMONY OF CAROLYN JARNAGIN, SECRETARY, ENGINEERING BRANCH

Ms. JARNAGIN. My name is Carolyn Jarnagin, and I'm the lower echelon. I'm a secretary. I'm known under the demo project as an assistant. I've been here at NOSC for 6 years. I've been with the Federal Government for around 15 years all together, and I'm not equal to these people here. I've had a very bad situation with the demo program.

Two years ago, my immediate supervisor recommended that I be given some points. And when it went to higher management they took them away from me, and I filed a complaint, knowing very

well that that complaint would not lead to anything. But I had to do something to establish my disagreement. It turned out that they agreed that it was taken away. But I felt that the immediate supervisor knew what I was doing and what kind of work I was doing, and he was the one who gave or recommended that I be given the points. I objected to the fact that higher management took them away from me.

I'm in the lower echelon, as I say. I get $324 for each point that I get. Well, at the end of the payday I get about $22.50 a payday more. So, that's not much of an incentive to want to go on. However, I am 65 years old, and I hope to be able to quit work when I'm 70. That is, if I get enough points along the way. But I feel sometimes that an immediate supervisor does know what work you're doing and what the quality of work you're doing. And I think that someone who's not acquainted with what your workload is and what you do, why, I don't feel that they are qualified to make that decision, and that's my objection.

I do think, too, that there's a big leeway in the amount of money. Now, I understand that engineers and scientists have gone to school and are very intelligent. But I have been to four or five computer schools. I've gone to computer classes myself, paid for them myself, to educate myself on a new system we had. I've done all these things because I wanted to progress. I didn't wait for management to do them for me. I realize that engineers and scientists and people are much more intelligent and are due more money than I am; but I think sometimes my work is just as important as theirs is, and I feel that sometimes $22.50 a payday is just not enough for something that you do. I might be better equipped to tell you how I feel if I knew how many points I was going to get this year, because my job has been changed considerably. I've had at least half more responsibility given to me in this past year. And as I say, if I knew how many points I was going to get, I'd be more apt to tell you how well I like the program.

Senator STEVENS. Well, I'll follow up and find out how you did, Ms. Jarnagin.

Ms. JARNAGIN. I certainly hope that you're going to stand behind me on this merit system, because if I get in trouble for what I'm saying here, I will want some help.

Senator STEVENS. You've got it. That's one of the questions we've had. I think everybody should know that people in the subcommittee have looked at this and asked, what is the incentive?

My law office secretary now runs my offices in Alaska, and she's been my boss for 25 years. You know what I mean? Unless this system has some awareness of the importance of people like that in the total framework, there's going to be a disincentive. If someone tried to sell that grading system to my secretary and told her that she couldn't go higher than an 11, she would have quit 5 years ago. That system would require, as I understand it, that she become an administrative specialist before she could go above grade 11.

Ms. JARNAGIN. Yes.

Senator STEVENS. I don't want her to go above grade 11. I want her to be a damn good secretary. You see, that's a different problem in terms of management. That's why we want to find out for

sure that this cover is going to fit all of the different circumstances.

But that's an interesting point about taking away points. That bothers me a little bit because the people who are taking them away are in competition for those points, too, at the present time.

Ms. JARNAGIN. That's right.

Senator STEVENS. That's something that has to be analyzed a little bit. I appreciate you coming up. You've got my address. You call me collect if you think you need to.

Mr. Ledbetter, why don't you take it, please.

TESTIMONY OF J.M. LEDBETTER, SYSTEMS IMPLEMENTATION BRANCH

Mr. LEDBETTER. Good morning, Senator—or rather good afternoon. I appreciate the opportunity to appear before your panel and address my comments to the issues under discussion. I am classified as a scientist. I've been with the center for some 6 years. I have a total of 10 years' Federal service. A little over 4 of that initial service was as an officer in the Navy; following that, approximately 1 year in commercial experience.

The only personnel system experience that I have is with the demonstration project, although—I'm sure my colleagues will agree—we certainly have heard many comments from our friends regarding the comparison between the two systems.

I'd like to, first, second Mr. Pugh's comment regarding the pay pools and the suggestion that he has made to separate the pay pools. I would tend to agree that we need a pool for those people who specialize in the management field. I think we also need a substantial pool for those who are in the technical classifications, whether they be scientists, engineers, technicians, what have you, and I think we need also a pool to cover those people who provide the necessary essential functions, as you termed, general administrative functions, to essential support functions, without which none of us would be paid and none of us would have our reports typed, none of us would receive records at the end of the year indicating our salaries, how much tax we pay to our Government, just to name a few. Of course, it's also a necessary function to obtain the materials that we need.

I'd like to also comment about what Ms. Jarnagin just mentioned, and I would recommend that secretarial pay be viewed very closely for dramatic increase. I think our secretaries here at the center are grossly underpaid. In talking with professionals, male and female, in the secretary classification who work in the commercial sector, I find that they are paid much better than their colleagues in Federal service, on the average. I can't present you with any statistics in that regard, but that is the impression that I have been left with. I would also suggest that the secretaries are some of the unsung heros and need be remembered much better than they have been historically.

I think most of us would agree that we feel the need for more recognition monetarily. As I have commented to your staff before, and to friends of mine at the Center over the years, I think money is probably the best reward available in our capitalist system. It is

the best indication, if you will, of appreciation within the organization. We all receive our share of "pats on the back", but the paycheck is the bottom line as to how one feels his or her value is appreciated within the organization.

I would like to recommend that salaries be viewed critically with an eye toward increase and more comparability. I know comparability is not under discussion today, but I would like to provide you with that recommendation. If you wish, I can provide your staff or your office with a number of clippings I have obtained over the last 2 years regarding the issue of pay and how we compare to our colleagues in the private sector; that is, commercial sector.

I heard earlier in one of your questions the word "subjective" or "subjectivity," I believe was the word that you mentioned, and whether or not it is intended to be in this system. It is there, and it is perceived as being there by my colleagues. I must confess that I'm inclined to agree with them, that the system could be more objective. However, again, I don't have any experience personally with the GS system to which to compare the demonstration project. I can only go on what I have heard, read, and seen at a distance while I was in the Navy in dealing with civil service employees, various shore installations, and military facilities.

Based upon what I've been able to gather, I would say the demonstration project does offer a better potential for rewarding performance than exists under the GS system. However, as is true with any personnel system, there is room for substantial improvement. I've already provided a number of comments to your staff, so in the interest of time, I will not reiterate many of those, but I think perhaps the most important ones that come to mind are that—regarding position classifications.

First of all, I feel at times that the classification appears to be a bit nebulous and could perhaps be narrowed somewhat to indicate a little bit more closely what the individual is doing in general, a general classification. It's good to have broad classifications, but I think at times we may have them a bit too broad. Perhaps a bit of narrowing would be appropriate.

I am of the feeling that in some of the work I've been involved in—and I also hear this from many colleagues—sometimes these classifications don't seem to indicate what the individual is doing on a day-to-day basis. That perhaps could be corrected by further evaluation of those classifications. Again, one must start somewhere with the system, and I think the system as originally defined and proposed by the University of Southern California for NOSC and other organizations to use, starts with very good precepts and some very good ideals.

I have noticed over the years that the entry-level salaries have tended to stay reasonably close to the private sector; but I also know from talking with my colleagues, and from what I have observed personally, that many people feel they have been forgotten here at NOSC regarding salary. I know this is true because I know many people working here whose salaries are exceeded by the entry-level salaries. That's not a statistic I can give you as far as numbers, but that is a perception that I have; and that's based as I mentioned on information I've been able to gather. Again, I cannot underscore enough the importance of money as a symbolic reward.

Senator STEVENS. It's more than symbolic. It's just we're running out of it, that's all. I appreciate your suggestions. Thank you for your participation, and thank you all. We are very glad to get comments such as yours, and you've been very helpful. Thank you very much.

Mr. LEDBETTER. Thanks for the opportunity.

Mr. PUGH. Yes, thanks for the opportunity.

Senator STEVENS. We have Mr. Hamaguchi, Ms. Nelson, Ms. Batchelor, Mr. Davies, and Mr. Moreno.

It doesn't matter if you're not in order.

Mr. Hamaguchi, we broke the ice with the first panel, so you understand what I'm looking for. So why don't you just take that mike and spend about 2 or 3 minutes and tell me what you've got on your mind, and pass it down to Ms. Nelson. All right?

TESTIMONY OF DOUGLAS T. HAMAGUCHI, SYSTEMS SOFTWARE BRANCH

Mr. HAMAGUCHI. OK. I'm Doug Hamaguchi. I'm with the computer sciences and simulation department. I've been at the laboratory for 17 years, so I started fresh out of college in this laboratory environment. I started as a GS-5 mathematician, proceeded up through GS-12 mathematician, and am now classified in the demo project as a DP-3 scientist.

By and large, I favor the demo project because of the benefit it's been for me. I find the process simple and effective. I have a feel, year to year, of the goals I'm trying to attain, the objectives that my supervisor feels are necessary, and what training he feels is important for meeting my objectives and goals.

The concerns I have are based on discussions with other employees. If you're in a group of high achievers, that there really isn't enough money to go around for everybody in your group. But I think that's the case also with the GS Service with quality steps and other things. But by and large, if you are in a group of high achievers, the feeling is you're potentially penalized as a result of other high achievers in your group.

The goal-setting process, to me, in terms of the broad bands of categories—we have scientists, engineers, so forth—are very subjective. They are not consistent across departments and divisions. And I don't have a solution for that. I am sure they are different. I don't really have much insight as to what goals are for others at the laboratory. I have some insight into our group in particular.

The final thing would be in terms of incentive pay. We seem to have lots of incentive-type funding, not enough bonus-type funding which would address the people that are over the midpoint under the current scheme.

Senator STEVENS. Thank you very much. I appreciate your contribution. Do you want to give that mike to Ms. Nelson, please.

TESTIMONY OF KATHY L. NELSON, SYSTEMS PLANNING OFFICE

Ms. NELSON. My name is Kathy Nelson, and I am administrative specialist for the systems planning group. I feel that the demonstration project has benefited me personally, in my career growth, as well as in the function I perform for the group I work with.

Senator STEVENS. What is that function?

Ms NELSON. I perform all the personnel action, budgeting, contracting and just the whole spectrum of administrative work.

In relationship to my personnel function, the classification process was a time-consuming process under the GS system. It was a paper-generating process. The PD's developed were not necessarily accurate. We did what was necessary to get the person promoted. The promotion was the main consideration. In my job, I performed outside the scope of my position description in order to get the job done. That is, when I was a secretary, I was doing admin work. That was outside the scope of what my boss should have allowed me to do under the GS system. That's why the demo supports me. It allows me to do administrative and other challenging work.

I've wired circuits—I wasn't supposed to under the GS system—however, it was needed on the job. The demo allows flexibility to do a variety of work. My goals and objectives are geared toward me, the person, and toward the job I do for this activity. A different admin would do my job differently, and her goals and objectives would be geared toward her. So I do a better job because I do it my way, and I do it to support the people I work with. If I was held to a limited position description, it would be hard for me to work strictly in accordance with X-118 standards.

Senator STEVENS. That's a good comment. I appreciate that.

Ms. Batchelor, why don't you take that mike there. Pull it up toward you, right up there close, if you will.

TESTIMONY OF CAROL S. BATCHELOR, PERSONNEL OFFICE

Ms. BATCHELOR. OK. I'm Carol Batchelor. I'm a DG-12, assistant to the civilian personnel officer here at NOSC. I've worked for civil service for 17 years. I've been in the demo for the last 2 years. Personally I've received outstanding performance ratings while I've been here, and received monetary awards that I would not have achieved in the GS system.

I was in a 3-year waiting period when I came to the demo. That means that I wouldn't have received a raise for 3 years unless I would have received a quality salary increase or sustained superior performance award. Those aren't just given out to anybody who gets an outstanding performance rating. I had received an outstanding performance rating, but there was no money in the pool in the GS system to reward me. I find, in the demo project, that if you get an outstanding performance rating, you do get that monetary reward.

The broad pay bands, I think, help all secretarial field people in that moving from a GS-3 to a GS-4 to a GS-5 makes you change jobs. You have to move on to some other activities, some other place in the organization. But with the wide pay band, you go from the GS-3 through the GS-4 and stay on the same job that you're in and get the salary increases as you go along. I think that helps employee retention, also, in keeping people in the organization.

The job classification, as Kathy said, was page after page of strict things which you could do and which you couldn't do. Here with the demo project, it's cut down on the paperwork, and your scope of what you can do is a lot broader according to what the manager

and you decide upon, what your goals and your objectives are for the year. I feel that this system is excellent in rewarding people for their quality performance, and that it would probably work in any Federal agency.

Senator STEVENS. Do you have the feeling that if you got one of those special awards, you'd have a better chance of getting a different job? Have you seen mobility come about because of these awards?

Ms. BATCHELOR. In the demo project?

Senator STEVENS. Yes.

Ms. BATCHELOR. Yes. I think receiving an outstanding performance rating does help tremendously in many ways.

Senator STEVENS. Yes, but has it helped you? You said that you go from 3 to 4 to 5 and stay in the same job. All right?

Ms. BATCHELOR. Yes.

Senator STEVENS. Getting sustained recognition under this demo project, have you noticed people move into other jobs with greater ease if they are superior performers?

Ms. BATCHELOR. Yes. Yes, I have.

Senator STEVENS. You do think it has that incentive too?

Ms. BATCHELOR. Yes.

Senator STEVENS. OK. Thank you very much.

Mr. Davies.

TESTIMONY OF KIRK DAVIES, ELECTRO-OPTIC SYSTEMS BRANCH

Mr. DAVIES. Thank you. My name is Kirk Davies. I've been with civil service at NOSC for 14 years. I came over from General Atomic. I was hired as a GS-13. By the time the demonstration project was put in effect, I had just reached the top of the 13 level. So right now I'm a DP-3, essentially topped out.

I received this little card through the mail—"The Demonstration Project—What Is It?" One of the statements on there says "pay based on performance." In my case, that has hardly been true. Every time I get an evaluation, I realize that I'm up against the stops. There's a brick wall between a DP-3 and a DP-4 which seems like it's almost impossible to hurdle unless you get into management.

I asked my supervisor during the last two annual reviews I've had what, if anything, is wrong with my job, my performance, and he said nothing. I design instrumentation systems, basically; and the equipment works just as I designed it. I asked him, "What can I do to get a promotion?" and he told me there is absolutely nothing I can do. The only chance I have of getting to a DP-4 was to watch the NOSC paper and see when a position of DP-4 comes along. Most of these are management positions.

However, about 2 or 3 years ago, a DP-4 engineer's position opened up. I went down to the personnel office and read the job description, and it seemed to me like it fit me to a tee, and I started to take steps to apply for this position. I was told, since I was a DP-3, I could not apply for this DP-4 position.

Senator STEVENS. Why?

Mr. DAVIES. Because that was the rules. Those are the rules. I had to be a DP-4 in order to apply for this engineering position. Mr. Merrow made the statement that no specific group seemed to be——

Senator STEVENS. Wait a minute. I don't like things I don't understand. Are these people still here? Mr. Hillyer?

Mr. HILLYER. Yes.

Senator STEVENS. How do you go from a 3 to a 4?

Mr. HILLYER. There are two ways: You can apply for a position that's advertised as a 4. Some are reserved for lateral transfer, which I suspect was the case there, but don't know. Some are not. You can—you can grow in a position either through accretion of duties or creation of expertise. The requirement to be a DP-4 professional technical person is to have national reputation in your field.

Senator STEVENS. Is this equivalent to the break between the GS-15 and the SES?

Mr. HILLYER. No, sir. It's roughly between the old 13 and the old 14, GS-13 and GS—or GM-13 and GM-14. That's kind of the same criteria applied there to be a technical GM-14, and then——

Senator STEVENS. It's going from 13 to 14 of the old system?

Mr. HILLYER. Yes, sir, approximately.

Senator STEVENS. And if I'm a 3 and I want to compete for a 4, I can't do it?

Mr. HILLYER. You can do it, but some positions are reserved for lateral—do you member that case, Randy?

Mr. RILEY. I don't rember that specifically.

Senator STEVENS. I'm not worried about specifics. Mr. Davies is making a point, I think, on a generality here.

Mr. HILLYER. Some positions are reserved—what's the term I'm looking for?

Mr. RILEY. For lateral reassignment only. We advertise lots of jobs, move 4's around the center from one place to another, and that's probably the kind of ad we're talking about.

Senator. STEVENS. But I though this was a dual career ladder.

Mr. HILLYER. Yes, sir, it is.

Senator STEVENS. But this ladder ends at 3; right?

Mr. HILLYER. No, sir. If you have a national reputation in your field, published in open literature journals, or are nationally recognized, it's possible to get to be a level 4 employee without going into management. And we have a significant number of them that do. On the other hand, we self-impose a limit of the number of level 4's we allow on the center. And I admit that we have more people who are qualified to be a level 4 than we have room to promote; and that's simply to limit the cost of doing business on the center and, frankly, to restrain external criticism for grade creep.

So the captain and I artificially set a criteria—not completely artifically, for the number of promotions we'll allow to level 4. We base that on number of people who have left, past experience, growth of the center, the number of professionals in the center, and some judgmental things on the cost of doing business, and we limit the number of level 4's that we can hire.

Senator STEVENS. OK.

Mr. HILLYER. It wouldn't make sense for this organization to be all level 4's, sir.

Senator STEVENS. I understand that, but if I were to top a 3, I'd want to know how I'm going to get to 4, or I'm going to leave. That's why I'd sort of like to understand that. It seems like an arbitrary break that I didn't think was there. Does the same thing exist, say between 1 and 2? When I reach 8, how do I get to 9? A different job?

Mr. HILLYER. No, sir. We don't have limits on most of those promotions. The journeyman level is level 3. Promotions to level 3 generally happen as the individual grows and gains experience and, in some cases, education. The journeyman level is at level 3. We look at a level 4 as technical, as somebody with special talents.

Senator STEVENS. OK. Now, under the old system, what would happen to you, Mr. Davies?

Mr. DAVIES. Well, under the old system, the Department that I worked for at that time—and I had a pretty good rapport, I felt confident that, given a short period of time, I would have been a GS-14.

Senator STEVENS. But when you reach the top of the 13, you would have to have a different position to have a 14, wouldn't you, in terms of job description?

Mr. DAVIES. I don't think so. I think that the step between 13 and 14 was much easier than it is between the DP-3 and DP-4.

Senator STEVENS. I see. OK. We'll look into it. That's an interesting question.

Mr. Moreno.

Mr. DAVIES. I have some more comments, sir.

Senator STEVENS. I've got to move through another 40 people, so I'm sorry. Thank you very much.

Go ahead, Mr. Moreno.

TESTIMONY OF JOSEPH D. MORENO, AFLOAT SYSTEMS BRANCH

Mr. MORENO. My name is Joe Moreno. I'm a DP-3 technical specialist, computer specialist. I have about nine items I'd just like to say up here.

In my opinion, NOSC has a strong antitechnical bias, contrary to the idea that there are dual career ladders. One ladder has a lot more rungs and is a lot shorter than the other ladder. It's been my experience that management believes that they can buy and recognize technical expertise in the same way. You know, you just write a contract for technical expertise. You don't have home grown. Statistically it seems to me that management rewards management more. That's been alluded to before. I have statistics that demonstrate that it's true, also.

Senator STEVENS. I've got to tell you, I'm not interested in as much about your comments about the system as I am about your personal experience. I don't want to be abrupt, but I want to listen to a lot of people here.

Mr. MORENO. My personal experience has been that the individual for whom I worked found that I was doing excellent work, and my line manager found that I was doing nothing of value, and that went on for about 3 years until I got out of that environment.

I had a reevaluation previously where the factfinder found that my assertion that I had not been evaluated by this manager was substantially accurate and yet the captain—his predecessor allowed that my evaluation was correct. So I went to personnel and said, "Hey," you know, "What is my recourse?" and he said, "There is no recourse."

But what the system has managed to do, they dropped the midpoint from the top of the GS–12 some $800 in 1983, which certainly makes people below the midpoint much more susceptible to topping out earlier. And currently I think what bothers me is that there really are no criteria. Almost all of the things that management says to you are subjective. They say: "Well, I think," "I feel." There do not seem to be any sets of criterion as to what particular jobs are awarded; in other words, a dollar value of some sort. They say that they go by this, but there isn't any documentation to back it up.

Senator STEVENS. Is this in terms of the within-grade concept, or the bonus portion you're talking about in terms of subjectivity?

Mr. MORENO. The subjectivity is basically in the objectives and in the evaluation. Since I've been in the demo project, I have yet to work for an individual who has been university trained in management. Right now, for satisfactory performance, they can give you zero, 1, or 2 continuing or bonus points. Now, that's for satisfactory performance. Thus it is possible for a person to perform satisfactory without ever advancing. That seems bogus to me.

I hear lots of assertions about how well the demo project is working, and I don't find that in the statistics that you're going to look at that base evaluation. For instance, OPM says that 80 percent of the people are in favor of the demo project. Consistently here the lowest number of people percentagewise who are against the demo project is 26 percent, and in that percentage category there were about another 23 percent who were indifferent, who had no opinion. So I fail to see how 80 percent of the people can be in favor of it, like I said.

Senator STEVENS. Well, how has it affected your job?

Mr. MORENO. My job? Well, in point of fact, it's terminated my career. I don't see how a career is possible under the demo project, because the criteria are basically subjective. Managers, in my opinion, are poorly trained. They are certainly not university trained. In other words, they are trained by the personnel department in how to do what personnel wants them to do, but I'm not sure that that constitutes good management practice.

Senator STEVENS. I appreciate that very much. You've given me some ideas, and I will pursue those.

I thank all of you for taking the time.

Next now is Mr. Smith, Mr. Shearer, Mr. Ball, Ms. Blanchard, Mr. Poehling, Mr. Phillips, and Mr. Ottinger.

All right. Mr. Smith, go right ahead.

TESTIMONY OF HAROLD D. SMITH, HEAD, COMMUNICATIONS DEPARTMENT

Mr. SMITH. I'm Harold Smith. I'm a member of the Senior Executive Service; 23 years of Federal service; master's degree in elec-

tronic engineering, presently head of the communication department, responsible for research and development for advanced communications systems. I manage $100 million and have 350 people working for me.

Senator STEVENS. How long have you been here?

Mr. SMITH. I have been at this center since I came out of school, 23 years ago.

I believe, from my personal experiences, that there are two major principles that really need to be built into any personnel system. They are built into our demo project. Those two principles are simplified classification and pay for performance. In simplified classification, my observation is that there are two key factors. First, that we must have logical career paths; career paths that are made up of groupings of various series that make sense. If you want to put it into other agencies, you might have different career paths than we have here.

The second key factor under a simplified classification system I believe is essential is that we have easily understood pay bands within each of these career paths, such as we do for the DP that's been talked about here today. I'd like to give you one example under classification. In 1978, before we went into the demonstration project, I had a GS-13 engineer that I wanted to promote and had management approval to promote to a GS-14. This was a nationally recognized expert in high frequency communications, which is a very difficult media to communicate within. In particular, he had a Ph.D. in electronic engineering from Cal Tech. He was one of the top in his class.

I tried for 2 years to promote him to GS-14, could not do so because the classifier, who was a GS-11, determined that he was not in a classified position. I spent 129 hours trying to write PD's which would satisfy that classifier. Many sessions where I sat down and personally tried to convince him, all to no avail. It finally turned out that this happened to be a ham operator who determined that he knew everything there was about communications, even though I had a Ph.D. from Cal Tech who was working on the forefront of technology, who was a national expert, this classifier decided that the Ph.D was not doing GS-14 work. It wasn't until we entered the demo project that I was able to promote him to a DP-4 (GS-14).

The second major principle was pay for performance. That's quite often misunderstood, because it just isn't increased pay for good performance. It's much more complex than that. It really is equitable distribution of available dollars that can be given to particular good performers based upon their present salary. And, in fact, what it really is is a balancing of three factors. The first is: What is the person doing? What is his job? What's the scope of his responsibility? How difficult is his assignment? The second is: How well does he do that job? And the third is: What are we paying him to do the job? It's really balancing those factors out and making sure that we can distribute the pay equitably.

Now, I have two examples I'd like to share with you. The first is a mediocre performer. This particular person is a marginal performer. In 1966, he was promoted to GS-13. Performed very well at that time, but in the early 1970's decided to retire on the job, but

not to the point where we could give him an unsatisfactory rating. His salary, going into the demonstration project, was $46,000. He had progressed up through the ranks during the mid-1970's where he retired on the job to be a GS–13/step 8. Today his salary is $48,000, the same as it was when he entered the demonstration project. If we had not been in the demonstration project, he'd have been a GS–13/step 10, at $49,000.

Second example is a good performer, somebody who came in out of school and has progressed very quickly through the ranks, he has gone from a GS–7 in 1981 at $23,000 to a DP–3 today at $35,000.

If I can just have a couple of minutes, I'd like to make a couple of comments about some points that have been made that I don't think have been answered correctly. The first was bleeding from different pay pools to others. If there's any bleeding that takes place at all, it's from the high salary employees down to the low salary employees, particularly from the DP–4's into the clerical. Because we do recognize that our clericals are probably underpaid and they are essential for what we do. I don't think there's much bleeding; but if there's bleeding, it's going from the top down, not from the bottom up.

The second point was, supervisors compete for points with their people who work under them. That's not true. Supervisors do not compete. I have a pool of dollars which I am responsible for. I'm not in the demonstration project. It is true that I require that my division heads make recommendations to me of what their employees should be granted in terms of pay points. A branch head does not consider himself in a particular pool of points, so he does not have to compete with people underneath him. And the recommendations come up. The division heads don't have to consider themselves in terms of the salary increase that I might choose to give them based upon their performance and their salary in consideration of what points they want to recommend for their employees.

Second one is, I heard a point made that reconsiderations are to no avail. Reconsideration is if somebody does not like their rating, they have an opportunity to ask for an independent factfinding to review the facts of the case. In my department, the reconsiderations that have come in over the past 5 years, 20 percent of them have resulted in new facts which have actually changed the rating. So the reconsideration process does work. Thank you.

Senator STEVENS. Thank you. Very interesting. You raised a question, though, in my mind about the lateral transfer of people from your area of Government over to, say, the Forest Service or to the Coast Guard, in terms of a subjective mission-oriented rating system. You believe they ought to be subjective here rather than in the category that could be recognized if they moved to another city and be hired by another agency. Is that what you said?

Mr. SMITH. I'm not sure I understand your question, sir.

Senator STEVENS. Well, currently, you know, we do have a lot of mobility in our Government. If someone, for one reason or another, moves to another part of the country from here who has a civilian rating of GS–13, let's say, and you're a DP–3, as I understand it. They ought to have mobility into the rest of the system. Is that what you're saying?

Mr. SMITH. Yes, sir, I believe that. I believe that they do have that mobility. One of the things that we have is an exit policy, that if somebody moves to another agency that's outside of the demonstration project, we look at their salary to determine at what salary they are with respect to the GS scale, so that they can move to a GS-13 if they are being paid a GS-13 salary. One of the things we do as managers, we look very carefully at giving anybody points that's going to put them over the top of the GS-12 into the GS-13 pay bracket, because we recognize that if they do move, they will move into an agency where they will be a GS-13 because that's a conscious decision.

Senator STEVENS. OK. Thanks.

Mr. Shearer.

TESTIMONY OF RICHARD T. SHEARER, HEAD, INTELLIGENCE OFFICE

Mr. SHEARER. Senator Stevens, my name is Dick Shearer. I head the intelligence office. I entered civil service as a GS-5 technician, and I'm a DP-4, GS-15 equivalent today.

One of the dangers in following Hal Smith is, he's just scooped me on all of my points. So I will focus in on one, and that is—as technical director, Bob Hillyer, said, that the previous classification system was burdensome, and that's the understatement of the decade.

I spent interminable hours in battles with personnel on classification before, and I can only tell you, believe me when I tell you it has relieved me so I can go back to work. It was an endless effort involving becoming familiar with all the classification standards and essentially becoming a classification specialist. At the GS-15 level, that was ridiculous. So I commend this demo project to you on that ground alone.

Senator STEVENS. I've got that message all right. I thing it's a good point, Mr. Shearer, and something we've got to keep our eye on, because there's a cost factor involved in that.

Mr. Ball.

TESTIMONY OF TRACY F. BALL, HEAD, ACOUSTICS SYSTEMS, TECHNOLOGY DIVISION

Mr. BALL. Mr. Chairman, I'm Tracy Ball. I head up a scientific and engineering division of about 70 people. I've been at NOSC and at the predecessor organizations for about 27 years. I've been a supervisor for about the last 15. Obviously, most of my experience has come from here. As compared to the old GS system, I like the demo program pretty well. It works for us, I believe.

You've heard good points, and I'll just reemphasize a couple. Performance appraisal has more meaning under the demo program than it did under the GS system between supervisors and managers; it can directly affect the pay of the employees, and that gives a tangible meaning to the performance appraisal process. It takes a little more time to administrate, but I would say that that's more than offset by the savings in time associated with the provisional management classification process.

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Anyone who's ever written a position description for a GS–13 job and tried to get acceptance can understand that frustration, and I'm ready to hear comments on that. I have a couple of suggestions in thinking about applying it on a broader basis. I think one of the great advantages of the demo program is its simplicity in concept and its minimal external control aspect. I would try and preserve that, if at all possible, and get the control down to a fairly low organizational level.

Second, I would try also and make the pay pool generation process, the concepts for the payroll, pretty straightforward. We have it that way now. It's basically a percentage of the aggregate salary base. Anybody can understand that process by which you generate point values is straightforward, and in addition, the necessity to preserve a good deal of flexibility in how pay pool is distributed.

When we started, we had only zero- 1-, 2- and 4-point awards and some controls over how we could use those. It wasn't a fine enough resolution. The 3-point award was really necessary, and a little less control on some of the others. We also did not have continuous and bonus point options in the beginning. It was all continuous points. I think the recognition for one-time performance is an important aspect also.

And third, I guess, I would just say in general that I feel that we have basically a productive relationship with the employees at the center. We work reasonably well together. We generate a lot of good products and do a lot of good work. I don't think the demo program will affect the situation where that isn't the case. There is a fundamental flaw between the management and the people in the organization. I think the demo program can be expected to solve it. I think it provides a better set of tools than what we have in the old system.

Senator STEVENS. Thank you very much, Mr. Ball.

Ms. Blanchard.

TESTIMONY OF HELEN M. BLANCHARD, HEAD, TECHNICAL INFORMATION DIVISION

Ms. BLANCHARD. Thank you very much, Senator. My name is Helen Blanchard, and I'm a level 4 manager. I head the technical information division, which consists of four branches. It consists of technical publications, the audio-visual branch, technical libraries, and the small T.I.D. branch in Hawaii.

Senator STEVENS. How long have you been here?

Ms. BLANCHARD: I've been here for about 27 years. I started as a GS–3 about 27 years ago at NAO, but I've just been in this position just short of 2 years. So my experience as a manager has been primarily with the demo project.

There are about a hunderd people in my division, consisting of a large group of creative people, writers, editors, illustrators, graphic artists, photographers, video specialists, librarians, and administrative and clerical personnel.

I can't compare the demo project to the other systems, but I do know that this system is far more equitable than the old step increase within grades that I experienced through the years in civil service. I feel that we cannot only reward the high performers, but

we can motivate good performance. It does make a difference if that employee knows that giving a 110 percent is going to show up in his pay envelope. There's no doubt about that.

I agree with Mr. Smith. Those points that are given are not primarily or completely for the achievement of objectives that are made with between the employee and the manager, but there are other things, including comparing their salary with comparable workers. I think that's an important point to bring across. I agree about bleeding from top down. I think that I've seen that in the 2 years that I've watched this system operate. I, too, believe that the flexibility with which we can use those bonus points is very important.

So far as classification is concerned, I know that it reduces paper work for supervisors, and I do remember the old position descriptions and the wars writing and the work that we went through to make those possible. I did not manage a group this size with that system, but I can imagine the paper work maze that I'd be in if it were still with us today.

I've been trying to think of some negative aspects, and the only one I can really think of is the fact that we can dead-end good people in lower grades, because if we have good workers who are performing in an excellent manner, we tend to give them bonus points to bring them up to a level where they are just sitting at the top of their particular level. But from my personal experience, I like the demo project, and I think it's come a long way to make Federal service here at NOSC equitable, and I think it's much less cumbersome for the managers.

Senator STEVENS. Very good. Thank you very much. I appreciate that.

Mr. Poehling.

TESTIMONY OF RICHARD M. POEHLING, HEAD, FINANCIAL ACCOUNTING

Mr. POEHLING. Thank you, Mr. Chairman. My name is Dick Poehling. I'm head of financial accounting here at the Naval Ocean Systems Center. I've been here for approximately 18 months. Prior to that, I was a grade 13 accountant with the Internal Revenue Service in Minneapolis, MN, for 14 years. I was under the General Salary Schedule that entire time.

I'm responsible here at NOSC for the day-to-day operation of 5 accountants and 25 technicians. I was in a supervisory position for approximately a year and a half with the IRS before coming here, and I saw what the merit pay system was like at that time with the IRS; and I believe they've got now what's called PMRS—performance, management and recognition system.

I would certainly endorse the demonstration project here at NOSC. The advantage of the demonstration project, to my way of thinking, is that both supervisory and nonsupervisory personnel are included in the demonstration project. That was not the case at the IRS. It is a simple and noncomplex system. There's money in the pay pool, which was not the case in the merit pay. Management is given the flexibility to not reward mediocre performance, which was very difficult to do under the General Salary Schedule.

I was an experienced grade 13 who had moved into facing the 3-year step increases, and there didn't seem to be a lot of incentive to perform. With the demonstration project, it holds out hope for true performers; and you do have a way to reward nonperformers, also.

I think if you ask me would the demonstration project or something like it work at the IRS, I would have to say yes. In the IRS we had State and gift tax attorneys, groups of the State and gift tax attorneys, some who were very good at their jobs, and some who weren't. We had accountants, some who were good at their jobs, and some who weren't. And at the service centers in particular, where there are thousands of lower grade technical personnel, some of them are good at their work and some aren't. And I think any time a situation like that occurs, if meaningful demonstration objectives are written, I think the system will reward the performers, and I endorse it.

Senator STEVENS. Thank you.

OK. Mr. Phillips.

TESTIMONY OF J.L. PHILLIPS, HEAD, DESIGN ASSURANCE BRANCH

Mr. PHILLIPS. Senator Stevens, I've been with the civil service for 30 years in all types of grades, starting with wage grade technician work. I've worked at NOSC for 14 of those years, started here as a technician. The demo program has treated me very well.

I'm one of those transition people. I don't believe that's been discussed today, but there is a method within the program here where technicians can be transitioned, and I guess you would call them paraprofessionals. I currently am a branch head with several engineers and technicians working for me in design assurance.

With all of this positive, I see some serious negatives in this system before it could be applied, and probably things could be corrected here at NOSC. The primary one is on a paper that was handed to you just before we started, and that is a pay system bias against nonprofessionals.

Senator STEVENS. Yes, I've read that, and I understand that, Mr. Phillips. So if you've got any other comments, I'd like to have them. But you're right, it's there and we'll have to examine it.

Mr. PHILLIPS. OK. Applying this system in a RIF situation and utilizing the performance pay increase as a major of retention shows great risk to me, because one of the primary things that we consider in our pay increases—or at least that we consider in the division that I work within—is the level of pay that a person is receiving in relation to his job requirements and his performance. We have people that are making lower pay in relation to their performance and their general job requirements, and we have people that are high performers and are also receiving high pay.

The people who are in the latter category do not get point awards as readily and justifiably, as they shouldn't. They are being paid for their current performance. The people who receive point awards are the ones in the lower pay categories. If you take a snapshot of this and have a RIF, you could be penalizing people that are experienced, receving adequate pay, and doing excellent work,

because they wouldn't have a record of receiving incentive points. I am concerned that this aspect exists.

I'm also concerned that there is a limitation on the awards. It's a financial limitation, meaning that if you take another RIF snapshot, you will be excluding people who were overlooked in performance increases because of limitations in the amount of the pay pool. I don't think that you can use this as a criteria for excluding or including people in a RIF status as long as there are these limitations. It's not a true indication of performance. It's an indication of performance with relation to current salary.

Thank you very much.

Senator STEVENS. Thank you. I don't think we've had a RIF since the plan has been into effect, so I think anything about RIF's is sort of speculative.

Mr. PHILLIPS. Well, I've been involved in four RIF's in my career, and I have a very good feeling for what RIF notices feel like when they are handed to you. I can see what would happen in this system.

[Information submitted by Mr. Phillips follows:]

PAY SYSTEM BIAS AGAINST NONPROFESSIONALS

Senior engineering technicians earning 33 to 41K receive significantly less in point-value reward than entry-level professionals earning 14-21K.

These technicians generally serve on project teams with higher-level professionals and their performance (number of points) is evaluated in this context.

Performance expectations for lower-level professionals are much lower and, therefore, points are often much easier to earn. This is a double negative to the Senior Technicians - - their points come with greater difficulty and are worth less than the junior engineer's.

POINT VALUES

DT III $443 Vs DP I/II $584 (+ 32%)

DT III $443 Vs DP III $663 (+ 50%)

TO OBTAIN FAIRNESS IN THE SYSTEM, POINT VALUES MUST BE EQUALLY BASED ON SALARY AND SALARY GROUPINGS FOR POINTS MUST BE NARROWED.

JACK L. PHILLIPS
NOSC, CODE 924
8 JULY 1986

DEPARTMENT OF THE NAVY
NAVAL OCEAN SYSTEMS CENTER
SAN DIEGO, CALIFORNIA 92152-5000

Canc: Nov 1986

NOSCNOTE 14000
1401/SSR:ab
12 May 1986

NOSC NOTICE 14000

From: Commander, Naval Ocean Systems Center
To: Branch Heads, Project Office Heads, and above

Subj: DEMONSTRATION PROJECT PAY POINT VALUES FOR 1986

Ref: (a) NOSCINST 14000.6A, Demonstration Project pay system

1. Purpose. To publish point values and midpoints for 1986 incentive pay.

2. Information

a. Reference (a) provides for preestablished pay point values and allocation of funds to Center organizations for Demonstration Project payout. Point values for continuing salary and bonus points for the 1986 Demonstration Project payout are as follows:

DP IV	$920
DP III	663
DP I/II	584
DA/DS/DT I/II/III	443
DG IV	443
DA/DS/DT A	234
DG A/I/II/III	324

PROF Tech

b. Demonstration Project pay ranges and midpoints for 1986 are as follows:

Career Path	Level	Minimum	Midpoint	Maximum	
DP	IV	$44,430	$56,185	$67,940	
DP	III	31,619	40,248	48,876	} PROF. POINT VALUE $584
DP	II	21,804	29,875	37,945	
DP	I	14,390	21,453	28,516	
DP	A	9,339	13,031	16,723	
DA/DS/DT	III	$26,381	$33,743	41,105	} Tech. POINT VALUE $443
DA/DS/DT	II	21,804	26,508	31,211	
DA/DS/DT	I	14,390	20,026	25,662	
DA/DS/DT	A	9,339	13,031	16,723	
DG	IV	$24,011	$29,152	34,292	
DG	III	19,740	24,044	28,347	
DG	II	16,040	19,605	23,170	
DG	I	12,862	15,786	18,710	
DG	A	9,339	12,118	14,896	

RIF IMPACT USING PAY FOR PERFORMANCE

Pay system is used to bring up high performers who are at lower salaries. Once salary is up it becomes more difficult to earn point awards.

Difficulty occurs in using point awards as retention criterion. When a person is doing an excellent job and is being paid appropriately, point awards are not justified. Instead, the point budget will be used to improve the positions of good performers who are at lower salaries.

The system must weight good performance at high pay as equal or better than outstanding performance with respect to lower pay.

If not changed in this manner, the system at NOSC will RIF senior experienced staff and favor less-experienced staff who are doing well with respect to their lower salary, but may never equal the performance of their experienced mentors.

Major psychological setbacks (divorce, injury accident, death in family, etc) can temporarily affect performance of the best and most productive employees for fairly long periods (often greater than a year). If point awards are a retention criterion they must consider this common factor. 3-5 year averaging would be one method of protecting high performers who are experiencing a major setback.

Limitations on point awards is another factor. Points are necessarily budget limited forcing value judgements of current salary vs performance and performance comparisons within peer groups.

SINCE THESE AWARDS ARE BUDGET LIMITED, THEY SHOULD NOT BE USED AS A MAJOR RETENTION CRITERION.

JACK L. PHILLIPS
NOSC, CODE 924
8 JULY 1986

Senator STEVENS. Mr. Ottinger.

TESTIMONY OF GREG K. OTTINGER, HEAD, ENGINEERING BRANCH

Mr. OTTINGER. Thank you, Senator. I'll be just brief.

I'm a supervisory electronics engineer. I've been here at NOSC about 15 years, with 3 years out at China Lake.

I guess I feel that the demonstration project is a step in the right direction, and that direction is of improving productivity within the Government or the civil service. I think that that is accomplished through emphasizing personal responsibility. As an engineer, I appreciate the cause-and-effect relationship, that if I work extra hard, I will be recognized and rewarded for that work.

I feel that it also impels communications between management and employees. One is enforced or compelled or impelled to sit down and talk with the individuals; talk not only about what this year's goals are, but what their long-term career goals are, and explain to them what the management goals are and what the group is trying to produce.

I find that most of the people are not reticent to communicate about things, but there are always a few that need that encouragement, and I find that to be very useful. And it's mandated under the demonstration project to occur at least twice a year, with provisions for modification of goals and objectives whenever it's appropriate.

Basically, I find that the demonstration project has fostered a competitive environment and—I mean, that's fairly obvious with the cause and effect of pay to performance, but it's a little more subtle than that. As a recruiter at China Lake, I found that the students or the graduating people I was talking to, when we got to talking about the personnel system and I mentioned the demonstration project, it seemed like the high performers were pleased by it and sounded, you know, genuinely interested. Those who thought going to work for the Government meant that you didn't have to work at all seemed to be turned off by it. So there's the filtering process, you know, at the outset; that the people that are willing to compete feel that they have something to offer and are willing to work, can be rewarded.

There are problems, of course. No system is perfect, and as you know, the previous civil service system evolved over a period of 100 years or so. Our society has certainly changed a lot during that period of time. The demonstration project is new, as I said. It's not perfect. There are some things that make it difficult to administer or to manage. One of those is that the pay within the Government system is a matter of public record.

I also worked in industry for 3½ years as an engineer, and there pay was not a matter of public record. You and your boss and, I guess, his boss knew how much you were getting paid. Your coworkers did not know how much you got paid, nor did they know how much your raise was for that review period. In the Government service, everyone knows what everyone else makes, and with that same attitude and that same mentality, people also share how

many points they got, how large was their raise. This sometimes causes some sociological problems.

I have a concern that with the point system point sizes are too large, the increments are too big. For example, you might have two people who are equal in performance or very nearly equal, and one increment or point for a professional journeyman engineer is $663. If you have two people nearly equal, but the budget is not big enough, then one will get four and the next will get three. This becomes a matter of public knowledge, and there is discomfort, and you may well lose the three-point person, who is also outstanding.

I would recommend, I guess, we move more toward a continuous system where you have an amount of money that the first-line supervisor would, you know, distribute among the group, and I think that that would reduce some of these problems.

Senator STEVEN. That's the old bonus system rating. I understand what you're saying, and that's one of the things we are looking at in terms of this disparity. I appreciate your comments.

Did you have one last comment, Mr. Smith?

Mr. SMITH. Yes.

Mr. OTTINGER. I'm sorry. I have a couple more.

Senator STEVENS. I'm sorry. I have to move on.

Mr. SMITH. I'd just like to clarify one point on the RIF. Mr. Phillips is correct that early in the demonstration project that was a problem. It was recognized, however, and one of the changes we made was that now the performance rating is only used in terms of deciding who should be RIF'd and who shouldn't—using performance there's only two groups, and that is the satisfactory employees and those that are marginal. So even though we recognize that a high performer who's making a lot of money may not receive very many points, and in fact may receive zero points, he's still a satisfactory employee. So if a RIF came, he would be treated equally with somebody who got four points.

Senator STEVENS. Thank you all very much. I'm sorry. We've got a group here to go, and then I've got to go to another meeting here again. Thank you all very much.

Mr. Wilcox, Mr. Johnson, Captain Bailey, Mr. Bartley, Mr. Towle, Mr. Maynard, Mr. Porter, Mr. Jahn, and Ms. Rainville.

Now, you may think you're here for another reason, but let me tell you why I think you're here. I'd be happy to have you sit down, please, everybody. You're the group, I understand, that really is the steering group for the demonstration project. I know you've got a lot of things that you'd like to tell me, but I've got one thing I want to ask you all.

Please sit down. Come on. There's a place here somewhere for everybody. If there isn't, we'll just get you another chair.

I'm serious, you're probably prepared to tell me a lot of things, but I would like each of you to think about one question and give your comment on it. You all have something to do with framing this project, and you've heard this testimony, and you've lived through it.

Now, I want you to tell me one thing. If you had the power to change it, what changes would you make now? OK?

Is that fair, Mr. Wilcox? Would you tell me that? What changes would you make in the system? I don't want you to tell me how

you think it's worked. We've heard all that. The redundancy doesn't do us or the people who read this record any good. You helped fashion this project. Tell me what changes you would make.

TESTIMONY OF D.J. WILCOX, CHAIRMAN, DEMO STEERING GROUP MEMBER; T.O. BARTLEY, ADVISOR TO DEMO STEERING GROUP; B.L. TOWLE, CHAIRMAN, DEMO ADVISORY GROUP; J.H. MAYNARD, CHAIRMAN, CLASSIFICATION SUBCOMMITTEE; H.O. PORTER, CHAIRMAN, PERFORMANCE APPRAISAL SUBCOMMITTEE; E.R. JAHN, CHAIRMAN, PAY SUBCOMMITTEE; AND MS. S.S. RAINVILLE, ADVISER TO DEMO STEERING GROUP

Mr. WILCOX. My name is Mr. Wilcox. I'm the Deputy Technical Director. I have worked on this from it's inception, and all the committees report through me to the Technical Director and the Commander. Believe me, I face that problem all the time, because we have suggestions coming up all the time for changes. We believe that we have met the ones that we think are important. I cannot come up with something as I search my soul for that answer. Many times in my job: What do we need to improve this thing? I've heard a lot of suggestions, but I think it's a balance. We're looking at the total system, so I cannot come up with something here that is drastically out of wack in this program. We're really proud of it, and a lot of work has gone into it.

Senator STEVENS. OK. Do you all agree?

Captain BAILEY. Yes.

Senator STEVENS. It's evolved now to where you would not change it?

Mr. WILCOX. Minor tuning is the only thing left.

Senator STEVENS. Well, you know, minor tuning is a question of degree. This concept of a difference between these pay point values is an interesting thing. There is a great disparity there. You know, $920 compared to $324, and the performance rating has to be the same to achieve it that raises some serious questions. That's minor tuning, perhaps, but it's still major to the people who have got the $320 compared to $920.

Mr. WILCOX. We have here the experts that worked in each of these areas, subchairmen, and they've based that problem to come up with those ratings to see just what was the right amount, and I'm sure they are prepared to say how that worked out.

Senator STEVENS. I think it has worked. I'm not being critical. I think here it's worked, and it's worked well, and you've evolved the system. There's a great deal of difference now in the system as what it was when you first started off. I think you'll all agree with that. You're the committee that's evolved that. Is that right?

Mr. WILCOX. Right.

Senator STEVENS. And there is a process of evolution when you put into effect a project like that. That's what worries us, in taking your project and clamping it down on 2 million people all at once, because of the lack of identity with other areas of Government. I have some serious questions about that, but I don't think you all want to face those questions. Again, do you all agree that this has evolved to where, in terms of the project, you would like to say the demonstration is over, "we'd like to live under this system"?

Mr. WILCOX. Absolutely.

Mr. TOWLE. Absolutely.

Senator STEVENS. There is no question about that as far as your committee is concerned?

Yes, madam?

Ms. RAINVILLE. I would make one change.

Senator STEVENS. Tell me. Hold that mike, would you, please, Ms. Rainville.

Ms. RAINVILLE. I would make one drastic change in the project. I agree with everything that's been said so far; but I would, if I had it to do over again, completely unhinge it from the GS system and have it in pay bands that equate to entry-level trainee and journey-level and even senior-level, and get away from whether or not it's better than a GS-12/step 10 or anything having to do with the GS system.

Senator STEVENS. What you're really saying is you'd like to see us give authority now to move into another system. This system has worked. Right?

Ms. RAINVILLE. It has worked, and it's working better than the alternative.

Senator STEVENS. You're looking for a broader band?

Ms. RAINVILLE. No, I probably wouldn't change the bands. I just would not say it's bounded by the GS system. If it were expanded to the rest of the Government, I would say get it away from the GS system. It causes too much comparison with something that shouldn't be the standard to compare it with. The GS system is not all that good.

Senator STEVENS. By definition, if people had their way, the GS system would go and this would be put in its place, and that leaves some question as to its applicability.

Half of your people are professional people, engineers or management people. You put it into a service group. You know, we have people in Government whose primary function is servicing requests from individual citizens or providing assistance to people who are enjoying recreation, like Park Service personnel. Now, you can set goals and objectives for your system. I'm not sure how we define the objectives of a superintendent of Mount McKinley National Park in my State. OK? He's got so many assets available, so many trainees, so many people. The civil service system gives them rigidity, but he's dealing with the service functions. Nothing changes in terms of developing new designs or new innovations, meeting system changes. His system is preservation.

Ms. RAINVILLE. That's true.

Senator STEVENS. The basic goal is to preserve that park. To put this management system on them is a different thing.

Ms. RAINVILLE. I don't believe that, sir, if you'll excuse me.

Senator STEVENS. All right.

Ms. RAINVILLE. I believe that people have a job to do and they have a mission. I mean, that agency exists with some goals that are laid on it by Congress and by the administration. Each boss knows what the jobs are that have to be done, and he knows in his mind what each employee has to do to get the goals of the organization achieved. It's a question of writing those down maybe in one sen-

tence, four or five of them for each employee. It's not different for a scientist.

The objectives that you hear about now are something like develop a proposal for a specific project by a certain date. That's not esoteric and it's not complicated. I'm sure that the inventions and the thought processes that go into achieving those goals are, but people are people. And this system is working for clerical people here, it's working for people like me, and I'm a personnel person, and I've worked at a lot of Navy activities in the personnel field. People manage. When they are given the tools to manage, they can manage better.

This is just better than the GS system. It isn't perfect. But I don't see other things coming on the horizon. I'm seeing us focusing on the point value and on minutia when the important thing is the broad pay bands, the career paths, getting people into career structures and occupational groupings that make sense, instead of a giant Rubix cube, one two-dimensional Rubix cube. That's what I think is important about the project. What we keep emphasing is pay points and mid point. Those are not the essentials; the classification process is. In my opinion.

Senator STEVENS. Well, that's a good opinion.

Anyone else have any comments? Yes, Mr. Towle.

Mr. TOWLE. Yes, sir. Mr. Chairman, I'd like to give you one moment of background. I have served at every level in the labs, from technical department head up through and including manager of all the Navy labs, including commanding officer, so my background on this is wide. I've also served as a production manager of NARF.

It's my opinion that whether we could succeed in moving this out into the rest of the group, at least the rest of the group with which I am experienced, depends on how the Government hands it to us. If we get something that was given in exquisite detail by some contractor set up for the Department of the Navy who hires people to do that in detail, it will fail because it won't fit all the places; it may not even fit many of them.

What we got was a fairly broad blueprint. I was the chairman of the implementation group to put flesh on that skeleton. The skeleton was the major point that Sue Rainville mentioned to you. The details, internal details, were provided by a group of personnelists, line managers. We soon caught on that we better get some working people in there, and we did so, and they provided the local sociological overlay that makes it work here.

Now, I think it would be a terrible mistake to try to impose a laboratory framework on a park, but I don't think that the park people can't devise, within the broad outline, a suitable framework for them.

Senator STEVENS. I agree with that. I don't think she's saying anything different. But go ahead.

Mr. TOWLE. One other thing. I think that you've heard a lot of things here today that really aren't factual. One thing ought to be mentioned: the differences between perception and reality. The dual ladder is the one that I would like to comment on.

You've been told that the dual ladder doesn't work here and the scientists feel that they don't have much opportunity. The facts are

that when we began the demo, 42 percent of the DP-4's were non-supervisory scientists and engineers. That is, in their own recognizance they had attained that level. At present, it's 58 percent. In other words, the DP scientists and engineers in the floor have expanded substantially in the period of the demo. It provides for that, and it has taken place, and that's not perception; that's known.

Senator STEVENS. That's a good point.

Any other points that people have?

Yes, sir, Mr. Jahn.

Mr. JAHN. Yes. I'm the chairman of the pay committee here. I've gotten involved with a lot of issues that employees have raised concerns on. One that came through today on a couple of occasions was relative to the situation where a supervisor makes a recommendation for a rating and he can't do what he wants to because of the constraint in dollars or points that are available. Now, almost any alternative you look at in this has pros and cons.

Senator STEVENS. Yes.

Mr. JAHN. What I am speaking to, however, is that there are ways to look at this, even with a constraint on dollars, you can put a system together whereby you divide the dollars that you have as a pool into the points that you allocate. We certainly considered this. This was one of the options we considered at the very beginning, and we've looked at that possibility since then, too.

Senator STEVENS. Have you changed it at all since the beginning?

Mr. JAHN. We have not changed that. The reason that we have not made that change is that there are potential inequities that you create between departments that you might establish. Your basic pools in the departments of 300 to 500 people would probably be the basis upon which you would define a dollar value for a point after you have allocated the points the way you would like to. There are potential inequities then because people working side by side from different departments on task teams can then be given different rewards for getting the same outstanding rating.

A factor that one might want to look at, which I consider interesting in my position as a manager of a division of 75 people, is lifting the "quota" on points. In general, the recommendations of the managers, when they are given guidelines, do not substantially exceed the value of the number of points that are available. In that light, one could make some changes that would lead to a minor variation in the point value to allow one to give out more points than you initially defined, but that would result in decrease in the value of point; just a possibility.

Senator STEVENS. I have outstayed my lease here. I'm going to have to pay for the afternoon if I stay any longer.

Let me ask you one question. You're the committee. We make the recommendations to the Congress and to the administration. Suppose we decide that broad pay bands in and of themselves are worthwhile; not the whole project, but just the broad pay band concept. In your experience, is there enough value in broad pay bands to warrant that first step for the whole Government?

Mr. WILCOX. Yes. I think the broad pay bands and the simplified classification are so important. The details can be worked out by the agencies like we have here, the tuning. But the fundamental is, the broad pay bands is excellent; the simplified classification; and,

in it, some form of pay for performance. That's what we should start with.

Senator STEVENS. But you've just put in the pay for performance. What you're really saying is you don't think the broad pay bands will work without the pay for performance. Is that right?

Mr. WILCOX. They should go together, in my opinion.

Senator STEVENS. There's not enough advantage in getting away from classification problems and having mobility within a broad pay scale without the monetary incentives. Is that what you're saying?

Mr. WILCOX. A half a loaf is always better than none. Really, you need to put them together.

Senator STEVENS. Depends what kind of loaf if is.

Mr. TOWLE. You mentioned reclassification. We feel very strongly on that. If you tied broad pay bands with simplified classification, then we feel more strongly, than simply the broad pay bands. I think I speak for all.

Senator STEVENS. Ms. Rainville, you may have the last. Let me ask you: Is there within this system the same basic discrimination based on sex that some allege that the General Schedule has?

Ms. RAINVILLE. Have I stopped beating my husband? I don't believe that there's discrimination here. I think——

Senator STEVENS. I'm not talking about discrimination in the command. I'm talking about the system itself.

Ms. RAINVILLE. The system, like any other system, can either be used well or can be abused. I think that has nothing to do with the system itself. And I think, you know, if it's in the GS system, it would be in this system.

Senator STEVENS. Well, I have some colleagues who can amplify what I just said. But many people tell me that the GS system has built into it discrimination based on sex.

Ms. RAINVILLE. Well, again, our system is kind of hinged on the GS system in that we use the definitions for our classification system directly from title 5; and to that degree, because we are linked to the GS system, we would match whatever those levels pay.

Senator STEVENS. You have the last word, Miss Rainville.

Ms. RAINVILLE. I would also like to say that if we had broad pay bands and simplified classification without pay for performance, yes; it would improve the classification system; yes; it would increase managerial time and employee time in those problems; but we would just have greater room for people to march lockstep from the bottom of the pay band to the top of the pay band by simply breathing, and I'm not sure that's good for the taxpayers.

Mr. WILCOX. Right. The three go together.

Senator STEVENS. Thank you all very much. I should take time to talk to each one of you, but I have people waiting upstairs for me. I appreciate what you've done. Thank you for all being here and for cooperating with us.

I thank you, Laura, for trying to keep the record of us who talk too fast.

The hearing is now recessed.

[Whereupon, at 1:35 p.m., the hearing was recessed to reconvene at the call of the Chair.]

OVERSIGHT OF NAVAL PERSONNEL DEMONSTRATION PROJECTS

THURSDAY, JULY 10, 1986

U.S. SENATE,
SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
China Lake, CA.

The subcommittee met at 9 a.m. at the Naval Weapons Center, Hon. Ted Stevens, chairman of the subcommittee presiding.

Present: Senator Stevens.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Good morning. This is the Civil Service, Post Office, and General Services Subcommittee of the Senate Governmental Affairs Committee. We are interested in developing a record on some of the facets of your demonstration project here. As you know, we held a similar hearing in San Diego on Tuesday.

We had similar hearings in Washington on pay matters during April and May, and we're really interested in the long run in dealing with retention and recruitment problems of the Federal Government. As you know, some people have suggested that what's now known as the China Lake experiment might be expanded into a governmentwide pay system. There are people in Congress who are skeptics, including me, who wonder whether it's possible to put this system into effect in the Federal sector for all civilians without knowing more about it.

Now, we don't have any hidden agenda, and we're not here to embarrass anybody or to make any ripples. We're really here to develop a record so that people who are not with me can see if some of the questions that they might ask have been answered by this record.

Sitting behind me, from the left to the right, are Kim Weaver, who's with Senator Gore; Allie Giles, who's with Senator Levin; Dave Williams, who's with Senator Durenberger; Rem Dickinson, who's with Senator Warner; Jeff Steger, who's representating the chairman of our full committee, Senator Roth; Lori Beth Feld, who is with Senator Trible; Sara Boney, who's with Congressman Wolf; and Bob Shelton of GAO.

Now, I don't want to leave any hard feelings, but let me tell you, we're here to get some answers to questions that we have. I'm sure you all have got things you would like to tell me, but I hope you'll understand that we have sort of a format here that we want to

follow and some questions that we want to get answers to. I hope that you won't consider me too obnoxious if I sort of at some time or other tell one of you that's not the answer to the question.

We really have some questions, and these young people behind me are going to be slipping me questions, as you will see. I'm sort of the Charlie McCarthy for these young people. That dates a lot of people here. You didn't laugh at all. But we are very serious in trying to get these answers and to get some comments.

As I assured the people in San Diego, if anyone makes a statement here and someone ever calls them to task for it, my telephone works very well on a collect basis; you just call me and let me know. We're entitled to get answers, and we're entitled to know how you really feel about some of the things that have happened. The questions that I'm going to ask are not designed to embarrass or put anyone on the spot.

So with that behind us, we're going to go in a series of panels. And this first panel is, obviously, Mr. Schiefer, Ms. Bien, and Mr. Glen. And the purpose of this panel is to give us a backdrop of what's gone on, where we are, and what you do.

I'd like to ask Mr. Schiefer, the technical director, to proceed please.

TESTIMONY OF GERALD R. SCHIEFER, TECHNICAL DIRECTOR

Mr. SCHIEFER. OK. Thank you, Mr. Chairman. We'd like to officially welcome you all to China Lake. This is a very unique facility, and I want to describe what we do here in some detail. I am Gerry Schiefer. I'm the technical director, have been for about 2½ months now. Before that, I was the deputy. Mr. Hayes chose to retire, and I took his place.

Also it's my pleasure to discuss the China Lake experiment with you all. The purpose of my remarks will be twofold: One, to say this is the Naval Weapons Center; and then to set the stage for the other testimonies that you'll hear from either Eva Bien, who is our personnel officer, and from Bob Glen, who has the responsibility to be the custodian on the demonstration project.

I'd like to first go to the Center. The Naval Weapons Center is the largest center that the Navy has. It's a major research, development, testing and evaluation center for tactical weapons. Secretary of Defense McNamara said in Viet Nam era, 80 percent of all of the weapons used in Viet Nam, tactical weapons, have their roots to the Naval Weapons Center, and that's true. If you take the recent events in Libya, eight major weapons used there, six of them were developed here. One we have technical responsibility for, and the other one, an Air Force weapon, has some of our design within it. So we have very broad exposure.

We're about the size of the State of Delaware, to put things in perspective, and control 12 percent of all of California's air space. So we're very large geographically. We're also large in number of people. We have some 6,000 employees, including some 500 military.

We have an integral laboratory, and we have an integral range that are intertwined, an outdoor laboratory and indoor laboratory. We have some 1,200 buildings, 1,000 miles of road. To do this di-

verse work that we do at the center, we need to have many different types of disciplines. We have mechanical engineers, electronic engineers, research scientists, technicians, administrators, accountants, fire fighters, plumbers, carpenters. All of the trades are involved here at the center.

We do basic research. We do actual design of mechanical and electronic and software design in-house. We fabricate systems, and we also test all of those systems on our—in our laboratory work benches, in the hardware, in the loop simulators, anechoic chambers, and then we take them out, put them on airplanes, test them captively, and also fire them.

This place has been called a national treasure. It's been called a center of excellence, and I guess that's why we thought about coming up with the demonstration program. If you're going to have a center of excellence, you need to have an excellent personnel program, a program whereby managers can actually manage all of their people and are not too constrained by confining regulations, and et cetera.

The Civil Service Reform Act, as you know, allowed the opportunity to have 10 experiments. We in fact went together with NOSC, which you visited, and the USC graduate school for public administration, and together the three of us put this demonstration as an entity. We obtained support from the Navy chain on up through OPM and discussed it with Congressional staff; and as you know, the program has been in operation since about July of 1980.

The reason we wanted to have such an experiment, we felt that the standards we were using were outdated, that it took far too long to classify somebody, that it is very ineffective and inefficient; and, in fact, it put us in an adversarial situation as managers with our personnel people, as we debated what the classification ought to be.

We had very limited flexibility in our reassignments, and as we decided to take a branch head and ask him to be on a program as a project engineer, it was viewed as an adverse—adversarial situation and an adverse action. So we had very limited flexibility.

We had a limited dual ladder. It was very hard for us to give compensation to those people who were technically extremely competent and, we felt, ought to be rewarded for the type of work that they were doing.

Also, we were having a significant problem with our recruitment. We could not compete with industry in any way for starting salary, and we wanted to see if we could do something about that.

And finally, we were worried about turnover, especially with engineers and scientists who were getting up to about the GS-12 level. We had a bottleneck there and were stymied, and they would go to industry, and we'd lose the significant corporate memory.

With those problems in mind, we set about putting together the demonstration project. We did that by bringing in task groups of peer people; that is, that we were going to bring in a select number of scientists or engineers to start the program. We brought them together to determine what the pay ought to be, how we ought to do performance appraisals, what the PRB's—performance review board's—process ought to be, how we ought to do classification. And we brought that in from the grassroot level, and then it was

discussed and worked out between that task group and an oversight committee.

For the Naval Weapons Center, now we've had this experience some 5 years. I think these are the things that we have accomplished. In fact, we do have a very simplified and updated system. We're able to classify somebody by computer now in a matter of minutes, versus the 9 months or so that it used to take us in a high-grade arena. We have management significantly more involved in the personnel process, and much more understanding of the process. I think it's allowed our managers to really manage, and it's given us the flexibility that we desire. We can move somebody to an equal sort of job without worrying about adverse action.

Maybe the best effect is the improved communication that we have, the welding together of a better team between supervisors and employees. It's been a very good experiment for us. The things that we have done, that we've done slowly, to bring in first the scientists and engineers, then technicians, administrators, and the experiment is still going on. We have been extended now for 5 more years, and it's been very beneficial to us.

With that, I think I'll terminate the remarks and I'd answer any questions, sir, or we can pass it on the Eva Bien.

Senator STEVENS. Thank you very much. Ms. Bien

TESTIMONY OF EVA BIEN, PERSONNEL DIRECTOR

Ms. BIEN. Thank you, Gerry.

Senator Stevens, ladies and gentlemen, I am Eva Bien, civilian personnel officer for the center. I head the department that provides the day-to-day administration for the demonstration project. I understand, Senator, that you are familiar with the background of the project, how it came into being, and that you have received general testimony about the components from Randy Riley, the personnel officer at NOSC a couple of days ago. Therefore, I will only reiterate the basic framework of the demo project and comment more specifically on our approach to the four basic components.

While the basic concept and framework are identical at both centers, the implementation or the approach to the implementation of the four basic components did vary. The four basic components that I will comment on are the simplified classification system, the simplified performance appraisal system, and expanded application of the merit pay concept at all levels, and a performance based retention system.

The heart or the keystone of the project is really the broad band concept. We grouped the GS–1 through –18 pay grades into separate occupational career paths with broad pay bands or levels of difficulty. Each broad pay band includes at least two GS grades. Pay bands in each career path reflect entry, trainee, journeymen, and senior levels of work for that occupational group.

We have four occupational career paths on the center. They are the scientists and engineers, the technicians, the technical specialists, and the administrative occupational group. We did not enter our clerical occupational group when NOSC did, because of the 5,000-person limitation on demo projects. That limitation has since

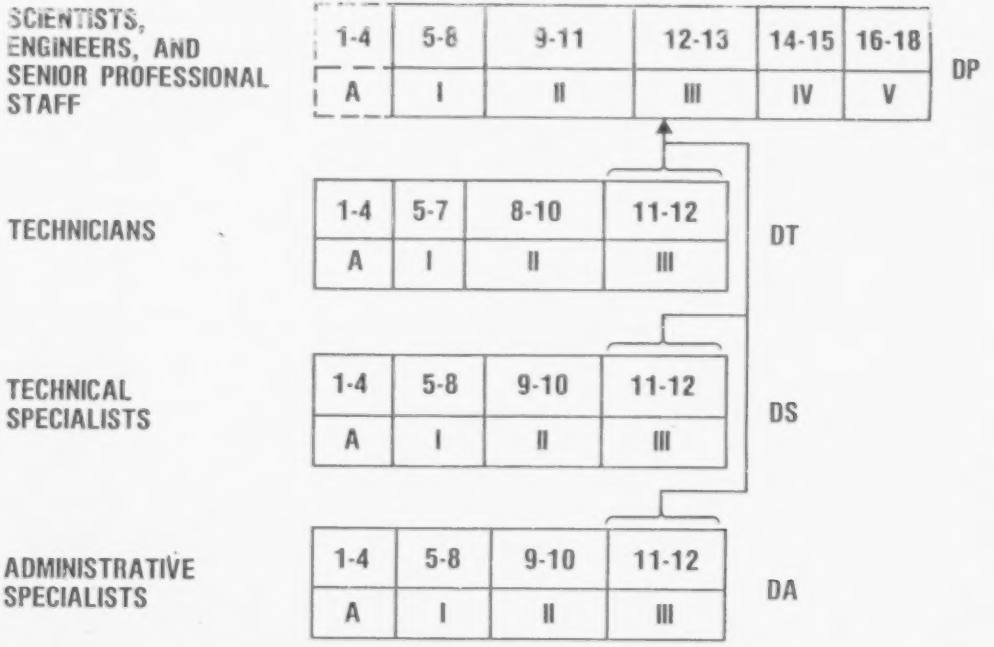
been lifted, and we are currently reviewing the entry for the clerical occupational group.

I would like to enter for the record our depiction of the broad pay bands for our four separate career paths.

Senator STEVENS. We'll put it in the record. Thank you.

[The information referred to follows:]

CAREER PATH IDENTIFICATION BY CLASSIFICATION LEVEL AS RELATED TO CURRENT GRADE LEVELS



Ms. BIEN. The most effective component of the project is our simplified classification system. We literally tossed out the complex and outdated OPM classification standards. We designed a simple system whereby our subject matter specialists wrote one simple standard for each pay level that recognized the rank of the person, as well as the rank of the position. Typical duties and responsibilities were described and computerized in a menu format.

The first-line supervisor is now able to determine the level of his position by selecting the appropriate menu item. This process takes about 20 minutes to complete. There are built-in checks and balances in that a second-level or above supervisor must concur, and the personnel department does make the final classification of the position. This quick, simple classification system has made personnel mobility easier and has become a valuable tool in career planning.

The performance appraisal is not that different than what has been implemented in the rest of the Federal Government. At the beginning of each year the supervisor and employee plan and discuss what is expected of the employee, just like they do in the GS/GM system. There are two monitoring sessions per year and a final appraisal made at the end of the performance year.

Employee performance is evaluated on the basis of five incentive pay groupings: From performance that is exceptional to that which is unsatisfactory. Depending on the appraisal, the employee can be promoted, have his pay adjusted upward in the pay band, be given a one-time bonus, receive comparability only, or remain exactly where he is in the pay scale.

The focus of this process is on the communication between the supervisor and the employee. There is a built-in system of checks and balances in that any rating other than fully satisfactory is not considered final until it is reviewed by a performance review board. Employees also have the right to ask for reconsideration of their rating.

If a manager or supervisor does poorly in the appraisal of his employees, it will be reflected in that supervisor's appraisals, since the management of human resources is an important element in any supervisory position.

Our pay system is anchored to the General Schedule. Our pay system is set up so that the pay band is divided into increments between the lowest and highest salary of the level. Each increment is about 1½ percent of the top of the band. Employees can be paid no less than the minimum pay rate, and no more than the maximum pay rate established for that pay band. For example, the level 2 for technician bands the GS–8, 9 and 10 grade levels. The bottom of that level 2 pay band is the GS step, GS–8/step 1, and the top of that pay band is the GS–10/step 10.

Employees advance in the pay band through performance ratings, not time in level. Unlike the General Schedule, a lump sum pay-out based on earned rating is given to employees who are at the top of the pay band. In addition, the broad pay band allows us flexibility to set pay based on qualifications.

Employees who receive no or limited increases due to performance migrate downward toward the next lower level without any specific adverse action. Employees advance to the next level via

promotion. Just as there are checks and balances in the classification and appraisal components, there are checks and balances in the pay component. Before an employee migrates downward, there would have been a problem-solving team called in to assist the employee and the supervisor in correcting the performance.

To date, no employee has migrated downward to the next lower pay level, because the problem has either been corrected or the employee has chosen to go work elsewhere.

Promotion increases are limited to 10 percent, or to the bottom of the next pay band, whichever is higher. In addition to the increments, we also have a bonus system. Bonuses are the same size as the increments, and awarded for one-time superior accomplishments.

The fourth and last component that I will comment on is our approach to the reduction in force system. We implemented two changes: We put performance first, then everything else remains the same as it is in the rest of Federal Government. That is, we are saying that the fully satisfactory group and above has a higher retention standing than those that are below the fully satisfactory group.

The second change is that we allow no bumping across career paths. That is, if scientists and engineering positions are abolished, your technicians, your administrators and your technical specialists would not be bumped or impacted in any way. Scientists and engineers could only bump other scientists and engineers. Employees can retreat to the career paths through which they progress.

In concluding, I would like to say that after being involved in this project for 5 years, I am convinced that it is because of the broad pay band concept that we're able to design the simple classification system that has worked so well here. In fact, the broad pay band concept and the classification system work so well that it is taken for granted and people simply don't talk about it anymore. The classification system is a lot easier for employees and supervisors to understand, and work together to help each other get what they want from an organization.

We in personnel, though, who have had to work with the GS standards and the old classification system have not forgotten how awful it was when managers and employees alike saw you as the enemy. The managers saw you as keeping them from managing, and the employees saw you as stopping them from being promoted. The demo classification system has enabled personnelists, supervisors and employees to work closely together to solve people problems that are part of any large organization. Managers now feel that they can manage their employees and have become accountable for their personnel actions.

I am convinced that the broad pay band concept which forms the basic framework of the demo project can be transported and will work in any organization. The demo classification component is a major change from the classification system used by the rest of Government. However, the other three, your pay, your performance, and RIF, have already been similarly implemented throughout Government.

Senator STEVENS. Thank you very much.

Mr. Glen.

TESTIMONY OF ROBERT M. GLEN, DEMONSTRATION PROJECT MANAGER

Mr. GLEN. Thank you, Senator. Senator Stevens, distinguished guests, I'm Bob Glen, the manager of the demonstration project here at the Naval Weapons Center. I appreciate having this opportunity to talk to you about the results that we've seen in this project to date and some of the highlights from the center's evaluation efforts.

Each center has an evaluation team, and we have two control laboratories that we are measured against: The Naval Air Development Center in Warminster, and the Naval Surface Weapons Center in Dahlgren, VA and White Oak, MD. OPM is doing the external evaluation, and they established essentially four measures when we began this project: The first was success in science and engineering recruiting; the second was increased retention of high-performing employees; the third was improved personnel function effectiveness in supporting line management and employees and carrying out our mission; and the fourth was more direct linkage between performance and rewards.

Since we've been working on this evaluation, we added a fifth, which really may be summary, and most important of all are, and that is: Do we have a better personnel management system here as a result of the demonstration project? I'll briefly speak to these areas.

In terms of our entry-level professional recruiting results in fiscal 1979, we could not meet our requirements. We wanted to hire 85 new scientists and engineers. We were only able to hire 35. Their grade point average was about 2.7, and we had to make about five offers to receive one acceptance. This improved immediately with the demonstration project, and we have had our grade point average of new hires raise to between 3.2 and 3.3, and we've met our requirements, anywhere from 50 to 175 this past year.

Our offer to acceptance ratio has gone up to approximately 29 percent. We were concerned it wasn't higher than that, and we found out that the electronic engineers that everyone wants to hire right now have been very difficult to recruit and we've really only hired 14 percent of those that we made offers to.

In comparison to the control labs, our grade point average of new hires has been somewhat higher. It's been between 3.2 and 3.5 at the two demo labs. At the control labs it's been between 2.9 and 3.0. One other factor in recruiting has helped us a lot, and that is our ability to set somewhat higher starting salaries for more senior people coming from private industry, and this has really made the difference in a number of cases in our ability to hire people from industry.

We have looked very carefully at our turnover, our separations among scientists and engineers. We have discovered that in fiscal 1980, when the project began, about 9 percent of our scientists and engineers were leaving. This dropped to a low in fiscal 1982 of 4.2 percent, but this past year has risen back up to about 8.6 percent. We were concerned about why has the turnover gone back up.

We have discovered that about 60 percent of the people leaving are going to private industry, whereas in fiscal 1980, only about 25

percent were going. So it's really the private market that is driving this, to some extent, and the ability to obtain jobs.

We also were concerned as to who's leaving. We found that about 70 percent of the people leaving in fiscal 1979, before the project, were our journeymen, GS-12, -13, equivalent people. These were folks that we invested a lot of time in and money, and we didn't want to see them go. That has decreased to about 4.5 percent now of those leaving in the journeymen area.

With hiring more new scientists and engineers, we're finding it's a linear relationship. A few more of the new hires are leaving than occurred in fiscal 1979.

The turnover rate, though, among electrical engineers at control labs is over twice as high as it is at China Lake. NOSC and NWC have lost between 4 and 5 percent of their electronic engineers, and NADC and NSWC have lost between 8 and 12 percent during fiscal 1985.

One other factor that has been of extreme interest is: Are we retaining our better performing employees? We have plotted this and found that our two best performance ratings, only 3 to 4 percent of the people getting those ratings left this center. In comparison to the two lowest ratings, between 26 and 28 percent of those people left this center. In looking at the control labs, they have experienced about as many of their higher performers percentagewise leaving as their poor performers.

Cost has been a major interest in this project. We have looked at our cost over time from fiscal 1977 through December 1985 in terms of constant 1980 dollars. Our costs have been fairly level, but we did see an increase among the new hires at the DP-1 and DP-2 level, because we're paying higher salaries.

What we have discovered is there are three components to increased cost. OPM has said that our project is costing about 1 percent more than the control labs, in terms of what we're both spending for salaries. We feel that one third, approximately, of this cost is new-hire entry salaries for our scientists and engineers. About another third of the cost was the way we chose to enter our people in the project. We paid off pro rata share of step increases that they would have gotten. We made a few promotions so that nobody would be harmed initally by going into broad bands. That cost us a little bit of money.

The third aspect in increased cost is the way we're able to distribute the performance pay, where some people who are at the end of the band are still able to get a bonus essentially based on good performance, which would otherwise be unavailable in the civil service system, and that has cost us a little bit of money.

We and OPM have done a lot of work with employee attitude surveys. We've looked at ourselves over time, as well as in relation to the control laboratories. And essentially what we've found is that the demo project has caused increased employee satisfaction with extrinsic factors such as pay equity, performance appraisal, promotions, and organizational climate and trust. The intrinsic satisfaction—that is, satisfaction with the job itself—has not changed very much over time because of the demo project. In summary, the scientists and engineers at the demo labs have been most satisfied

in terms of all questions answered, and the GM employees at the control labs have been least satisfied.

In summary, I would like to give you my comments about some of the benefits in this project other than recruiting and retaining, which have gotten probably the most publicity. I believe that we have established a framework in the management system which is transferable to other agencies, and I'd like to tell you why. Because I think, in terms of classification, we've developed a simpler, less time consuming, requiring fewer resources system, and it's more easily understood; and we have much more up-to-date job descriptions; we've had more latitude in performance and pay distinctions, and that has resulted in increased job mobility. We really feel that there's more supervisory control and fewer classification obstacles now.

In the compensation system, employees have perceived a strength in pay performance link and increased internal equity. There's been a slight increase in pay satisfaction. That was surprising to us without comparability this past year, but that still was the employees' answer in our attitude surveys. We believe there's been increased managerial pay authority, and we have retained more of our high performers, and we really believe this is an acknowledgment of the pay for performance system.

And lastly, in terms of performance appraisal, we believe it's been more equitable among pay levels and career paths, it's been more flexible, it's focused on actual work output. There have been clear differences in terms of performance requirements at different rating levels. We've had more employee input to performance plans, and increased supervisory feedback as a result. And finally, we've had what we believe greater fairness impact on other personnel actions, and supervisors' willingness to make performance distinctions and, really, to face up to performance problems.

This concludes my remarks, and I thank you for this opportunity, and we would be happy to answer any questions that you may have.

Senator STEVENS. My impression at San Diego was that they have a higher level of people there who have more tenure, more service in the organization than normal in a Federal agency. Is that your situation, too? Do you have greater longevity here than normal in most Federal agencies?

Ms. BIEN. I think we do.

Senator STEVENS. There are higher retention rates here and more people who come to work here and stay here for a full career.

At least that's what I saw in San Diego.

Ms. BIEN. I believe that's also true for here, and I think it's primarily because of the organization climate and the actual work that is being done here.

Mr. SCHIEFER. Let me talk about tenure and also age. I think probably the average age of our employees right now is around 40, 41, 42, in that neighborhood, and it's come down a little bit in the last year or so we were allowed to hire. We were under a hiring freeze for about 10 years, and could hire only a few employees. That was lifted by House language, I think, in about 1982, and we've been able to hire. We brought on maybe 800, 900 people.

Senator STEVENS. You were in a personnel ceiling more than a freeze, weren't you?

Mr. SCHIEFER. It was a ceiling.

Ms. BIEN. It was a ceiling.

Mr. SCHIEFER. But it was essentially a freeze. We could not hire because we could not get down to our ceiling. We have been able to bring people aboard, our age has come down; but our average tenure, then, has also come down because of the number of people that we've actually hired. But I would say that probably the average tenure right now would be in the 15- to 17-year area.

Would you say that's correct?

Ms. BIEN. Yes, I think that's about right.

Mr. SCHIEFER. We can get that for the record, if that's appropriate.

Senator STEVENS. How often have you been evaluated by OPM during this demonstration project?

Mr. GLEN. I think constantly, if that's the right answer. They really came up to speed in 1982. They awarded a contract for the external evaluation initially to Coopers & Lybrand, and they didn't like the results and canceled that contract after 1 year, and took over the evaluation in 1982.

They have visited here a number of times. They did a classification survey at both demo labs and the control labs 2 years ago. I'd say we're under pretty continual surveillance with OPM.

Senator STEVENS. You have no employee union organizations here. Right?

Mr. GLEN. No, sir. We do have employee union organizations, but they are not involved with the demo project, because none of the demo employees are represented.

Senator STEVENS. And they are the wage board people?

Mr. GLEN. Yes, sir.

Senator STEVENS. How many of those are here?

Mr. SCHIEFER. On the center? How many do we have on the center? Craftsmen, probably 500, I would suspect.

Senator STEVENS. Roughly 10 percent of your people, a little less?

Mr. SCHIEFER. Less.

Senator STEVENS. Have you had any special pay rate authority in this project? Have you bent the parameters of any of these pay schedules?

Mr. GLEN. We've had the special pay rates as other employers for scientists and engineers, but we've been able to apply special pay rates to some scientific and engineering fields that were not included in the rest of the civil service, like computer scientists. And we really have the broad band, say, between GS-5 and GS-8 equivalent up to the top of the special rate scale. So we do have a little more flexibility than the rest of the civil service system.

Senator STEVENS. There seems to be an impression that the project has been acceptable to the scientists, engineers, and senior professional staff and not really acceptable to the others. Is that a correct impression?

Mr. SCHIEFER. As we put the program together, we first brought in the scientists and engineers. As in any experiment, you want to keep the number of variables down. So we brought in first the sci-

entists and engineers, then the administrators and specialists, then the technicians, and integrated those into the program.

As Eva Bien mentioned, we are now evaluating bringing in the secretarial staff. We've not evaluated yet any of the other groups. As far as our mini-surveys go, across the board we have acceptance of the program, and to my experience, I don't see a differentiation between acceptance by scientists and engineers and acceptance by the technicians and specialists.

Ms. BIEN. That's my understanding.

You have some data on that, Bob.

Mr. GLEN. Yes; OPM, in their surveys, has found slightly higher satisfaction among our scientists and engineers than other career paths, but it has not been statistically significant, and it isn't very much different among all the career paths.

Senator STEVENS. Do you have just one pay pool?

Mr. GLEN. Essentially what we have is that each of our departments, which range in size from 40 or 50 to close to 500, are given a pay pool. The manager of the organization is given a pay pool. So we have, in essence, about 23 different performance pay pools.

Senator STEVENS. Do you have statistics to show how much of the pay pool has been paid to each category within the individual pay pool?

Mr. GLEN. Yes, sir. We publish these data each year to all employees in the demonstration project through an announcement, a blue sheet that the center distributes; and we analyze these data by career path, by level, and by department.

Senator STEVENS. Would you give us your last publication, whatever it is? Have you got one available right now?

Mr. GLEN. I don't have one here, but I can certainly make it available to you. Yes, sir.

Senator STEVENS. I'd like to ask you to have someone get one, because we might have some questions here as it goes through my peer review board behind me.[1]

Mr. GLEN. OK.

Senator STEVENS. The staff tells me they've had some comments that there are some employees who would desire more structure. They feel that they are vulnerable to personnel actions without the availability of protection of specific occupational designations. Is that a correct impression?

Ms. Bien, do you know?

Ms. BIEN. I don't believe that's a correct impression. I'm not sure I understand what you mean by more protection.

Senator STEVENS. Well, with a specific job description, and the feeling is that there's a structural protection there against being transferred into a job someone does not wish to perform.

Mr. SCHIEFER. Each individual has a PAC—personnel activities and capabilities—which talks about all of the activities that that person should do, and the duties are defined in that. The person agrees to that PAC.

Senator STEVENS. But that person can be transferred within the same broad band to other jobs.

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[1] The publication referred to was retained in the subcommittee files.

Ms. BIEN. If you're saying that, for instance, if you're classified as the mechanical engineer, we retain the series and the discipline distinction within our broad pay band. It's true that we may reassign a mechanical engineer to another mechanical engineer position, if that's what you're referring to.

Senator STEVENS. But can you assign a person to a different discipline within the same pay band?

Ms. BIEN. If he's qualified, we can do that, but that's the same as what's available in the rest of the Government under reassignment.

Mr. SCHIEFER. If he were a mechanical engineer, we could give him the duties of a general engineer had he had the experience to be the general engineer. We would do that sort of thing. We would not reassign him to do the responsibilities of an electrical engineer.

Senator STEVENS. You have basically the same system as in the San Diego Center, except for the clerical. Are there any other significant differences?

Ms. BIEN. Not really. Our pay bands are all the same, except for in the technician area. We've banded the 2 level different than how they've banded theirs. They've banded—their 2 level is—ours is an 8, 9, 10, and theirs in 9, 10.

Senator STEVENS. You leave me with the impression you feel that this system would fit anywhere. If it were imposed on another unit, and I mean literally imposed, without employee participation in establishing the project, do you feel it would be as acceptable?

Ms. BIEN. No. I think it would be a mistake. What I am saying is transferable, can work anywhere. It's really the basic framework. I think organizations should design the systems that go with the various components to meet their organization mission and needs.

Mr. GLEN. We found it very important to have employee task teams involved in developing policies and also to help with the training, because it really helped not only in understanding, but in being able to work and model some of the things we thought might be problems before we actually experienced them.

Senator STEVENS. Well, the real key to this is performance rating, and it is different than the rest of the Government because that performance rating carries either a kicker or a carrot, so that it's more meaningful. I think you'd agree with that.

Ms. BIEN. Yes.

Senator STEVENS. Did you have any special training for the managers who are going to do the rating?

Ms. BIEN. Yes.

Mr. SCHIEFER. Yes. In fact, we did, and we felt that was very critical.

Senator STEVENS. How long did that take?

Mr. SCHIEFER. It probably took us, what, 6 weeks.

Ms. BIEN. Oh, we literally trained all the managers and all the employees in every aspect of the demo. So the training took well over—about 12 months to cover the whole organization.

Mr. SCHIEFER. Any decision has two dimensions; how well the decision is made, the quality of that decision, and how well it's implemented. What we were really worried about was getting the participation so that it was implemented well. And if we transferred this program to other labs or other organizations, other agencies, I

think the second part has to really come in. There has to be participation in the implementation so that it's accepted and it doesn't feel like it's an imposition on the employees.

Senator STEVENS. But you had management-designated employee representation, didn't you?

Mr. GLEN. No. In some cases, we had people call up and indicate an interest; and by definition, they became part of the policy setting. They got an opportunity to participate, particularly when we began with classification and performance appraisal task teams. We had self-referrals, essentially, people that were interested in participating.

Senator STEVENS. Why are you still evaluating the clerical concept or the conclusion? Is there some resistance from the point of the view of the clerical people to entering the project?

Mr. GLEN. No, I don't believe there is. I think the clerical people, I've heard, would like to come into the project in general. The difficulty is that this is a very nonhomogeneous work force. There are a lot of different kinds of people, there are jobs that peak out at different levels, anywhere from GS–4 through GS–7. People would enter at various grade levels. It's been a more difficult area to put into a broad band concept. We've looked at a number of approaches and found that we did not want to do anything that would harm a person's progression in terms of what they've experienced in the GS system.

What we're trying to do is model all the different ideas that we can think of and try to come up with the best approach, and that has taken a long time. We had an employee task team that worked close to 1 year on it, came up with some recommendations, and we're trying to look a little bit further at some of the other options.

Senator STEVENS. You realize, of course, if we follow the recommendations of some people, that we put this project into effect Governmentwide for civilian employees, there would no longer be a General Schedule. Have you had any difficulty with administering two systems? You have two systems here.

Mr. SCHIEFER. We actually have three systems: We have the GS Schedule, we have the demonstration program, and we have the senior executives. So we actually have three different systems that we're working under right now.

Senator STEVENS. You have four if you consider wage grade.

Mr. GLEN. Four with the wage grade.

Mr. SCHIEFER. Right, and four with the wage grade. That's correct.

Senator STEVENS. Some of your SES people are not within this system.

Mr. SCHIEFER. The SES system is a separate system.

Ms. BIEN. The SES are not part of the project, no.

Senator STEVENS. I understnd that, but you have not tried to put them within this system?

Ms. BIEN. We wanted to, but in the beginning OPM wanted us to leave the SES alone. We have a level 5 set up in the DP career path.

Senator STEVENS. I saw that.

Ms. BIEN. We could use that level 5 to put in the SES if we were allowed to. We do have one supergrade in that level 5 now.

Senator STEVENS. Do you have a complaint department dealing with this project? Has there been a special avenue for complaints about the project application itself?

Mr. SCHIEFER. We have within each department a personnel representative. We do have the demonstration steering committee, and we do have Bob Glen as the custodian. Every employee has access to the department personnel person, to personnel department itself, to the committee, and to Bob Glen. What we tried to do, however, is to put this within line management, and to increase the communication between line management and the employee. If there are problems, the employees, through the communication network, can in fact discuss it with his management. He can discuss it on up the line. I think there are several avenues that an employee can talk about improvements or talk about problems.

Senator STEVENS. The impact I've gotten both here and at San Diego is that if we put the project concept into effect Government-wide, there would be a substantial increase in cost.

Have you examined your project to see how that cost increase could be avoided?

Mr. GLEN. Yes, we have. We know that there's interest in, if that is expanded, to have it be revenue neutral. We feel that a number of the things we have done are optional. We could have entered our people as essentially people were entered in merit pay at no change in salary. Whether or not they had been waiting for a step increase or, say, 2 years in the 3-year waiting period, we could have just ignored that and moved them into the project at the same salary.

The increased cost in terms of initial hiring would be a tradeoff. We feel it's been an advantage to make us a little more competitive with private industry, but it wouldn't necessarily have to be done. The costs in terms of the performance appraisal, we've essentially spent the amount of money that we've spent in the previous 10 years before the project in terms of our pay pool size. We could limit that more diligently and keep those costs, neutralize the pools also.

But we believe that there should be a little bit of room for cost maneuvering because this is a pay for performance system. I think some of our employees feel that even what we've been able to do is not sufficient because we have a private industrial model with, really, not private industrial resources to bring along with it.

Senator STEVENS. You have a different concept here, a midpoint concept in your pay pools. Do you want to tell me how that works? Maybe you, Mr. Glen.

Mr. GLEN. Yes. Essentially we have approached it differently than NOSC. We have a midpoint threshold at the levels 3 and 4 whereby an individual to go beyond the midpoint, which is in the middle of the band, that individual should get a highly successful performance rating.

That is a one-time decision where we have said the person really ought to be a better-than-average performer to move into the upper part of the pay band. Beyond that, it reverts back, then, to the manager's decision based on what the performance rating is.

NOSC's time is more stringent than that. Their's continues to the end of the pay band, so that any time a person is in the upper

part of the pay band, he or she must receive a highly successful performance rating to progress at all.

Senator STEVENS. Suppose a person got such a rating this year and went beyond the midpoint, but the next year, didn't get such a rating. What happens?

Mr. GLEN. Well, beyond the midpoint it's no different than in the lower part underneath the midpoint in our system. Our midpoint decision is just at that point of moving from the lower part of the band to the higher.

Senator STEVENS. It doesn't move back, in other words.

Mr. GLEN. No, sir. But the person could stay constant. Say, if an individual is three-quarters of the way through the pay band, receives a fully successful rating, but is judged to make enough money for the position performed, then that person's salary could be held constant. If the salary scale then increases, if we ever have comparability again, then what would happen is the person would essentially move backwards in relation to the rest of the people in the system.

Senator STEVENS. Did you have special hire authority here? Did you have to have OPM approval on your new hires?

Ms. BIEN. We have to get approval to use the direct hire authority from OPM.

Senator STEVENS. Have you had it?

Ms. BIEN. Yes.

Senator STEVENS. On a general basis?

Ms. BIEN. We have had direct hire authority for our scientists and engineers through what is the 12 level. We have had a modified version of the direct hire authority in what we call the delegated examining authority here for some of our other occupations. It just speeds up our staffing process, since we seem to move a bit faster.

Senator STEVENS. I'm looking at this document we've just gotten back. Can you tell me how I can interpret that to see what percentage of the pay pools have been received by managers? [2]

Mr. GLEN. Yes. On page 2 at the top there's a percentage comparison of career paths, first by career path. That will give you a split-out by how the money has gone between the various career paths.

In specific answer to your question, on page 3 at the top, there's a percentage comparison of supervisors and nonsupervisors. So this is just saying, if you look under the supervisory column, we've divided this up based in terms of who got what performance rating. Our one rating is the top, and the salary adjustment can be either comparability and four increments or comparability and three. And you'll see in relation to the number of supervisors rated is that, "N" equals 546, or the number of nonsupervisors is the other number.

Senator STEVENS. What is "N"?

Mr. GLEN. That's the number of people that were rated.

Senator STEVENS. Oh, total number of rating under that column?

Mr. GLEN. Yes, sir.

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[2] The document referred to has been retained in the subcommittee files.

Senator STEVENS. Do you have the percentage of actual dollars paid out?

Mr. GLEN. We did not break it out that way. We could develop that data. The supervisors have been paid, in terms of performance money, somewhat more than the nonsupervisors. That is really a tradeoff, because if somebody in our system is, say, a journeyman engineer, DP–3, and is selected for a supervisory position, that individual gets no more money initially.

We have a pay for performance system so that individual then is paid more money based on performance, and the supervisors typically may get a little bit more than nonsupervisors because they, theoretically, are the more qualified people when they are selected to take a supervisory position. That's not to, though, at all harm our dual career ladder, because we are very concerned that we offer equal opportunities for the nonsupervisory people in terms of performance ratings. It's an independent assessment.

Senator STEVENS. Do your employees get any special pay or allowances for being here at China Lake?

Ms. BIEN. No.

Mr. SCHIEFER. No, not at all. Not at all.

Senator STEVENS. No housing concepts of any kind for civilians?

Mr. SCHIEFER. No, sir.

Senator STEVENS. Or special pay?

Mr. SCHIEFER. No, sir.

Senator STEVENS. Any special kind of leave payment of any kind?

Ms. BIEN. No.

Mr. SCHIEFER. Only the ability and the opportunity to contribute to the country, sir.

Senator STEVENS. I understand. We all have that. But I find in various places strange hangovers from the past in terms of allowances that were created in war days and whatnot. There is none of that here?

Mr. SCHIEFER. None of that here at all. At any level.

Senator STEVENS. Tell me, we've got a few more minutes, what type of complaints have you heard from those who don't like it, don't like this system? What's the most prevalent, particularly?

Mr. GLEN. I guess I'm the complaint department more than the rest of them here. I think I have heard complaints around the pay system from one aspect or another in relation to: Should I get more money in relation to my peers? And a lot of these things are hard for me to pass judgment on. We have a request for reconsideration process. We've only had about 1 percent of our people that are rated appeal, so we feel that we've not made very many mistakes. Some of the appeals, though, have been sustained where managers did not do a perfect job in assessing performance.

I have not received any complaints around the classification system. We have not had appeals in the classification program. I think most of it has reverted around how we've implemented pay, how the midpoint system has worked, how equitable we have been in terms of the distribution of our performance payouts.

Senator STEVENS. Do you manage the military compensation, too?

Mr. GLEN. No, sir.

Senator STEVENS. Are there any special concepts of pay applied to the military who serve here, out of the ordinary?

Mr. SCHIEFER. No. No.

Senator STEVENS. Ms. Bien, if you were sent to another unit to put this pay project into place, how long do you think it would take you to do it?

Ms. BIEN. Oh, probably anywhere from 6 to 12 months to initially get it started, because I would feel that it would be very important for both employees and managers to understand what that system is and the part that they will play in it. It's like you take time out in the beginning so that you save time in the long run.

Senator STEVENS. And how long do you believe that it would take you to evaluate whether the project was working in that new unit? How many years?

Ms. BIEN. I would say probably a minimum of 3 to 5 years.

Senator STEVENS. Have you had any complaints about the dual ladder concept here, in terms of application of the demonstration project to the dual ladder concept?

Ms. BIEN. Only to the extent that some of the people who get selected for managerial jobs or supervisory jobs feel like they should be paid more than the people who aren't supervisors.

Senator STEVENS. I get the impression from San Diego and here that I'm witnessing two fairly compatible, cohesive entities that have identities of goal and stimulus through changing coals, changing conditions. Do any of you have any impression about how large of a unit could be served by this type of project?

Ms. BIEN. You mean in terms of the largest size of an organization?

Senator STEVENS. Yes. The Department of Defense has roughly half of the civilians of the country. Could we apply it to the Department of Defense, put it into effect next year, and expect it to happen without any difficulty?

Ms. BIEN. Oh, I think you could say that. But I think the expectation without difficulty is unrealistic. I think it depends on how you go about the actual implementation.

Senator STEVENS. It's the employee participation that made it work.

Ms. BIEN. I think that's an important factor. It's the education of employee as well as manager that has made the system work.

Mr. GLEN. I believe we've had a number of contacts from other organizations that are interested in developing demonstration projects with OPM, and while we've found a varied commonality in the framework in what we're doing, we really believe that it would have to be custom tailored based on their own work force.

For example, in a shipyard there's a different makeup of employment there than we have here, and I think the pay bands probably would be different than we have done. So we would look toward it, hopefully, being custom tailored in relation to OPM or whoever would be working with it based on the organization's needs. But I believe there's a commonality in framework and approach that our demonstration has shown.

Senator STEVENS. Do you have exit interviews?

Mr. GLEN. Yes, sir; we do.

Senator STEVENS. Have any of the people left because of this system?

Ms. BIEN. I don't know.

Mr. SCHIEFER. In the last report for, say, the last quarter, the primary reason for those leaving was the increase of salary that they could get in the private sector.

Senator STEVENS. That's no different in or out of the project.

Mr. SCHIEFER. That's correct.

Senator STEVENS. That's competition.

Mr. SCHIEFER. The second point was concern over what's going to happen with the Civil Service retirement situation, especially at the younger age. That's a significant problem.

Senator STEVENS. Is that settled down now that we've passed a new retirement system?

Mr. SCHIEFER. I think people are still worried a little bit.

Mr. GLEN. I believe it will settle down. To answer your question specifically, we've had nobody that has said they've left because of the demonstration project. We've had comments about the demonstration project. By and large, people have said positive things about it and that the demonstration project itself has not been an influence on their decision, because we've asked that as one of our questions.

Senator STEVENS. Do you have any management training sessions yet about the impact of the new retirement program?

Ms. BIEN. No; we haven't because we have not received the specifics in terms of, you know, how the system is actually going to work and the specifics that people want to know about the investment portion and all the things that people are worrying about. We just simply haven't received any information on that.

Senator STEVENS. Well, I may author that. Believe me. When people realize what we have done, they'll find we've got a better system, and it's portable; I hope that you get some information on it soon.

Lastly—it will be lastly—to what extent has your turnover been caused by people who realize that under this system they would not have a future because of the connection between performance ratings and future increase in income?

Mr. GLEN. That's a hard question to answer. We know we have looked at performance ratings of people and those that have left, and we have given you those statistics. We really believe that people are primarily leaving here—either they are retiring and they would have retired under any circumstance, and they are leaving for private industry jobs, so that we don't really see an impact from the demonstration project necessarily in their leaving.

We think in some cases it's impacted whether they stay or not, because we believe that some of the better performers feel that they may be able to come out better monetarily in our system than they could elsewhere, certainly in Federal Government. But clearly some of our better performers will leave, and so the demonstration project isn't necessarily going to hold everybody.

Senator STEVENS. But, has the demonstration project been a disincentive for someone seeking a career who gets the message that unless they perform, they cannot pursue a career path here?

Mr. SCHIEFER. We can only go back to those that we've given four or five ratings to that we monitor. And, in fact, they have left the center in higher numbers than the ones who have gotten one, two or three ratings.

Senator STEVENS. I see. Well, I thank you very much. We're going to take a little station break here and when we come back, we'd like to see Steven Ball, Odessa Newman, Dr. Nielson, and Leonard Terral. We will have two panels for employees and two panels for the supervisors.

I see there's one member of the steering committee here in the last panel of supervisors. If there are any members in either the employee group or the supervisory group who were members of the steering committee, I'd like to know that. We have some specific questions for steering committee people. If not, I'd like to see if we can identify any others here in the audience who are steering committee members that we might add to that last panel.

We'll take 10 minutes here and come back.

[Recess.]

Senator STEVENS. Ladies and gentlemen, can we have a little quiet here?

When we finish here this morning, it would be my hope that we can pull open those doors back there, and somehow or other we can make provision with the people here who run the installation so that you can stay with me and the staff members here and just maybe have a sandwich and sort of informally visit.

I particularly want the members of the staff to be able to have an opportunity to have personal discussions with some of you about your experiences in connection with this project. Those type of discussions are very meaningful to us. And after that gets started, I will go over and take a little inspection of some of the work that you do. I wear two hats: One as chairman of the Defense Subcommittee, and the other as chairman of this subcommittee, and I'm here because of this subcommittee. I want to get that function performed before I go over and take a show-and-tell tour of the weapons systems.

I do hope that many of you can plan to stay and participate in this kind of thing. We should end up here by about a quarter of 12. I can't direct you all to do so, but I hope you will stay and participate in that sort of a function.

Now, we're at a different concept here. I would not expect any of you to have prepared comments at all. What I'd like to do is have you tell us what function you perform here and to give us your comments on the demonstration project from a personal point of view. I hope you realize we're not asking you to do the same thing that we just heard, tell us what the function of the center is or what the statistics are from a gross point of view of the organization as a whole.

We're looking, too, for your individual experiences and what your individual comments might be about this system. If you had the power to make any changes, what changes would you make? OK?

Now, Mr. Ball, would you like to start? Do you want to take that microphone so people can hear you. And the young lady here will record your comments.

Let me again emphasize, as I did in San Diego, that these young people behind me take this record and they use what I call the yellow-pencil treatment and highlight it for their Senators and Congressmen who are not here. They're looking for comments and suggestions, in particular, as to changes that might be made in this system if it was applied Governmentwide to the civilian work force. So I hope you see that this record is very important. The reporter, Laura Taylor, is the most important person here, not me or anyone else. She gives us the document we can take back so that other people have some insight as to what your viewpoints are.

So, Mr. Ball, would you start that off, please.

TESTIMONY OF STEVEN BALL, ENGINEERING TECHNICIAN

Mr. BALL. Thank you. I'm a mechnical engineering technician. I work in the Weapons Department and I have been working here for 5 years. I started under a cooperative education program through Cerro Coso College, and worked part time for the first 18 months. At that time I was a GS-3. I was not under the demonstration project. I completed an A.S. degree and training in 1982, and was promoted to a DT-1. That was my first experience with the demonstration project.

At that time we started to establish goals, and my supervisor listed the responsibilities that I would have to answer for, and I worked on a number of projects. And the following year I received two increments; the year after that, I was promoted to a DT-2; and then the following year after that, I got two more increments. All this time I've been pursuing a bachelor's degree in mechanical engineering, and I feel that's helped somewhat in my performance ratings.

Senator STEVENS. Is that available here at the center?

Mr. BALL. It is available up to a junior level at Cerro Coso College. I would have to leave here to get a bachelor's degree.

I feel the program has rewarded me fairly. I've worked hard, gone to school, tried to improve myself, and all the way along I kept receiving awards and I kept trying harder. As far as the program's problems, it seems that as far as the increments go, there doesn't seem to be enough to go around for other individuals. Some people have to, I guess, give up their increments in order for others to be rewarded for their performance, or it seems that way sometimes.

Senator STEVENS. Have you ever had occasion to appeal a rating?

Mr. BALL. Yes. I didn't, though. I decided against it. This was at the level 3. I was given the opportunity to request an additional "I" over what I was awarded, and I decided not to. I guess I looked at what everybody else was getting and tried to evaluate the fact that I was rewarded more than other people were, and more than, maybe, someone who had almost the same performance.

Senator STEVENS. Thank you very much. Would you like to give that microphone to Ms. Newman, please?

Ms. Newman.

TESTIMONY OF ODESSA NEWMAN, CORRESPONDENCE PROGRAM MANAGER

Ms. NEWMAN. Good morning. I work on the management side of the house in code 08. I'm presently detailed to the position of correspondence program manager for this facility. I've been a civil service employee for 4 years, and I've only been here at China Lake for 8 months. I have not had an opportunity to go through the increments or the awards or the formal evaluation outside of my 90-day probationary period. I expect, however, that when that time does come—and for this demo program, it's at the end of this month—that I will meet with a very successful evaluation.

I was very much attracted to this program, because I was working as a program analyst out at PMTC, Point Mugu, and I was on what they call the career ladder, which was a 5, 7, 9, 11; which meant that technically, in 4 years, I would have gone to the GS–11 pay band. And that was very exciting and very lucrative. However, I came here on travel one day last May or June and fell in love with China Lake, and decided that I wanted to move here. It might have been the sun and the heat that caused it, but anyway, we all picked up and we moved here.

My husband got a job here before I did, which left me in the Oxnard area with the eight children. I was ready to move anywhere where he was so he could take the eight kids. But anyway, I was offered this position. It was advertised as a GS–5, and at that time I was a GS–7, and I wasn't really sure that it was going to be in my best career goals and interests to accept a GS–5 to make the move, although I needed to make the move to keep the family together.

So when my branch head, when my division head explained to me what the demo project was and asked me if I would be willing to start as a DA–1, I was very excited about it. Another thing that excited me about this program—and I didn't know about it before I started seeking employment here—it seemed to be a program where you were more or less rewarded for your abilities to do the job, as opposed to the regular GS, you're going to get your next mediocre pay increase the next year anyway, whether you're a good worker or not.

When I came into civil service 4 years ago, I brought more than 26 years of management experience with me; and for me to come in as a GS–3 was not the most exciting thing, but it was the best we could do at the time.

I know that Representative Oakar, I think, from Ohio, who sponsored that bill—H.R. 4735 or something—to study alternative systems of pay, has some real reservations about whether or not the program's been studied long enough. And I don't think that we can compare what has happened here at China Lake with what might happen across the board at other facilities. This is a very unique situation. It's very isolated. There are things that we have to do and remain very flexible in order to attract the kind of quality people we need to continue to keep our defense strong.

I think that the Department of Defense across the board has not reviewed the alternatives for pay and the alternatives for recruiting and maintaining people in the hard sciences as well as people

in management, real skilled management-type people, and they are being siphoned off all the time by industry and higher corporations that offer them lucrative salaries and good fringe benefits. And if we are going to keep our defense strong, I think we ought to be able to pay our people to do that.

I think we can study this alternative and then we can hire people to study the study, which is often politically done, and wastes a lot of time, and still all of our people are going to be kind of siphoned off. I would like for us to just use this as one of the role models, and I think we have to remember that collective bargaining is here to stay. The unions are here to stay, and we're going to have to deal with that. That seems to be one of the other reasons why we're not sure whether we want to move this across the board. We're going to have to deal with that, the same as we do in our educational system.

One of the drawbacks there has been for me personally being in the DA program, is that it created a competitiveness with some of the employees that I work with who are in the GS category. And I had to work around the personalities involved so that there would not be that seeming, quote/unquote, jealousies kinds of things, because they saw me as being in a position to gain rewards that they don't have access to because they are in the GS band. So I think that by having the six broad bands across the board, instead of the present GS, 18 broad bands, would bring it more in sync for everybody.

And I think, Senator, these are basically my comments.

Senator STEVENS. Thank you very much.

Ms. NEWMAN. You're welcome.

Senator STEVENS. And I'll be back with some questions.

Mr. Nielson, you've got a microphone right there, sir.

TESTIMONY OF ARNOLD NIELSON, PH.D., RESEARCH CHEMIST

Mr. NIELSON. My name is Arnold Nielson. I'm a senior research scientist in the research department, in the chemistry division. I'm an organic chemist and an expert in the field of explosives, propellants, and fuels. I'm a DP-4. I came to China Lake in 1959, my first civil service appointment. Prior to that, I was in college teaching for many years.

I feel the demonstration project has many advantages for scientists and engineers who are in the so-called alternate ladder where they may not be in management or may not be in management throughout their career gives them an opportunity to advance based on their technical contributions to the center's efforts.

Without this dual ladder, individuals who have made significant contributions aside from management cannot easily be rewarded, so that the flexibility of the demonstration project does allow for rewards based on merit, also punishment in case of poor performance. It seems to work very well in that case too. Because of the mechanism of the method, the quarterly reviews, the performance plans, makes it possible for goals to be set out firmly and in writing so that performance can be evaluated against these written goals. And a poor performance can be documented in this manner.

The system might work a little better if there were more than four levels, although there are bottlenecks, of course, in any system which has a limited number of grades. What the optimum number of grades or levels should be, I can't say; but perhaps maybe six or eight would be better than just four. We do have quotas in each department for the number of promotions that are available. Managers, of course, feel their people are the best and they would like to get a higher share of the rewards; but in fairness to others, the quota system is probably the best alternative.

There is a problem sometimes—and this applies probably to most systems—of bringing in a person at a low level and then finding that he was, for whatever reason, rated at too low a level when he was hired, and then trying to make up for this later and getting him adequately rewarded. The quota system of promotions and so forth makes this type of makeup reward difficult, and this is probably true of other systems as well.

I would say in general the program works very well at China Lake. How well it would work elsewhere, it's hard to say. We have a very high percentage of engineers and scientists on the payroll, and we have a unique environment and task here at China Lake, and I think the program works exceptionally well for us. In other organizations, it might not work as well in its present form, although some modification of it perhaps would work.

That's all I have to say, Senator.

Senator STEVENS. Thank you very much, Doctor. Could you hand the mike to Mr. Terral?

Mr. TERRAL. Good morning, Senator. My name is Leonard Terral. I'm an electronic technician, DP-3, I do have a short, prepared statement. If you would indulge me, I think it would answer some of the things that you stated that you would like to hear from us. It also may present some questions if you would allow.

Senator STEVENS. How short?

Mr. TERRAL. I think probably 3 or 4 minutes.

Senator STEVENS. All right.

TESTIMONY OF LEONARD TERRAL, ELECTRONICS TECHNICIAN

Mr. TERRAL. I have 33 years' Federal service, 30 years being at the Naval Weapons Center. And whatever is decided about a new pay for performance program will not affect me. If the Stevens/Roth bill or Roth/Stevens bill goes, I think that I may accept the option of going out early.

My demo project experience dates from its original implementation at NWC, NOSC, orginally as a DP-3 technician and as a branch head during the times that we brought in the technicians, specialists, and admin personnel. I've remained pro demo project since its inception, even through the changes that had to be made over the years to make it work here. If the demo project is to be used as a model for a Governmentwide pay for performance system, there are several areas that need some serious thought applied. I cannot cover all that I know of, but I would like to identify five.

It is very difficult to have a true pay for performance system when there's a pool containing a specified number of dollars avail-

able for payout awards. The demo project at NWC uses such a pool, and a very close approximation of dollars available for payout is known well in advance of performance evaluation. This knowledge is shared down to the first level of supervision. Not many supervisors can be objective in assessing employee performance when it is known in advance how many I's he has available. The supervisor must then prioritize the employee's performance rating, which is not, and in my belief, cannot be a true pay for performance.

What I would do—you asked what I would do—would have no set dollar amount be allotted for payout. And my opinion is that the Governmentwide payout would be less than the percentage that is currently paid out with step increases, awards, et cetera.

Point 2: Lubricious-tongued supervisors have an ability to unfairly influence performance review board acceptance of recommendations. Favorite-person supervisors also have an advantage. I would recommend having performance review boards made up of branch/division personnel from divisions other than the home division of the persons being evaluated, and rate only on documented performance.

Point 3: Employees must have sufficient training so they can understand the processes of the performance assessment, performance review board, and the payout procedures. We must curb agencies', departments', and even division levels' tendencies to implement their own interpretation of what pay for performance is and having their own little demo project program within their group. I would recommend that employees be guaranteed to have the training available to them and have immunity from retribution when they know and report that the system is not working as planned.

Point 4: Dual ladder career advancement is written into the NWC/NOSC demo project. The fact is that it is virtually impossible to advance on technical ability from DP-3 to DP-4. An employee has to become a manager almost every time for this step. This is caused by the too broad pay bands within the classifications of the demo project. The thought of promoting employees from DP-3, which is GS-12/13, to DP-4, GS-14/15, is too much for the promotion review boards to handle. Their thoughts are, maybe subconsciously, that we're about to promote this GS-12/13 to a potential GS-15, and that holds back lots of promotions that should be given.

The same problem exists for technicians, admin, personnel, and specialists to go from, say, series 2 to series 3 within their field. Recommendation for a Governmentwide program would be to establish 10 or 12 classification levels, such as DP-1 through DP-10, instead of the DP-1 through DP-5 that we have at NWC.

Point 5 and, finally: Small problems have come up during the demo project's lifespan. These have been able to be identified and generally solved within 1 year, because it is a small program and being a demonstration project, it has the latitude to make quick changes.

Problems identified in a Governmentwide program will not be corrected in less than 5 years, generally, sometimes longer. Recommendation is that we find many of these problems that we can within the existing demo project, make corrections, try them out, and see if it works at NWC/NOSC before we go into a Governmentwide program.

I thank you, sir.

Senator STEVENS. Thank you very much.

Ms. Newman, you said something that interests me. You said that there was an advertisement for a GS-5?

Ms. NEWMAN. Yes, sir.

Senator STEVENS. But that's level 1 in this system. Was that the advertisement, for a GS-5?

Ms. NEWMAN. The advertisement, when it was first written, was for a GS-5; and it was readvertised because they weren't able to get the quality pool of people to select from. So they readvertised the position and were able to get a better pool of skills from which to choose.

Senator STEVENS. What I'm looking for is: When they advertise jobs from here, are they advertised as a level 1, 5, 6, 7, or 8?

Ms. NEWMAN. They are advertised both. If it's a DA-1, it will be advertised as a DA-1; and if it's a GS, then it's advertised that way. So they are advertised from both. If I understand what you're saying correctly.

Senator STEVENS. I'm going to have to get back to management to ask this. But when they advertise for jobs from here, the representation would be, then, that the job level was a GS-5 level within this DA-1 category. Is that right?

Ms. NEWMAN. No, sir.

Senator STEVENS. Well, I'm misunderstanding you then.

Ms. NEWMAN. I think you are. It was advertised as a GS-5, and because they could not get the quality they needed, they readvertised it and, during that, made some management decisions that maybe they would take someone with a higher skill level, bring them in the DA category, and try that. They don't have a lot of DA's in management in administration, and I'm one of those.

Senator STEVENS. I see. OK. That explains that.

In terms of this system, Dr. Nielson, I got this project bulletin, No. 19, to see just what's been the experience in that period—which is ending February 1986, apparently—for ratings for the scientists and engineers. Is there a general satisfaction with this rating process in the professional categories here?

Mr. NIELSON. You mean in the demonstration project at China Lake?

Senator STEVENS. Yes.

Mr. NIELSON. I think so. Actually, we've made some promotions recently. Dr. Atkins is going to testify later today, and he's our division head. He can give you more details on that aspect of it within our division. But I would say that we've been quite successful in rewarding people, promoting them to the DP-4, even though they may not be a supervisor. Although, the term supervisor, of course, implies a title, branch head, division head, department head.

Many of us are principal investigators on scientific projects, and as such, we bring in contracts from outside the center for large sums of money, and we often have—and I'm speaking for myself now, and others in similar situations—we have people who are actually working for us who are members of branches within the division. So that, in that sense, we supervise these individuals, over a period of time. I have some various chemists working for me or

with me on projects. So in that sense, I supervise their research efforts, but I am not listed on the chart as a supervisor. I'm listed as a senior scientist.

Senator STEVENS. Would you rate those people's performance?

Mr. NIELSON. Would I? No. The ratings are done only by line managers, branch heads, division heads.

Senator STEVENS. Are you consulted in the ratings of people who work with you?

Mr. NIELSON. I would be consulted, yes. I am consulted in a general way, yes; particularly with those people who work directly under my supervision. But I am not actively involved in the performance review itself as it is conducted by the supervisor. I am involved as a consultant or as an advisor, in an advisory capacity, I should say.

Senator STEVENS. On technical performance; would that be correct?

Mr. NIELSON. Yes, it would be technical performance. Yes. As an advisor, in an advisory capacity.

Senator STEVENS. Well, let me ask you all again, the bottom-line question: what basic changes would you make in this system as it's evolved now? I know there have been changes over the period of the demonstration, but would you make any basic changes in the system, any of you? You've made some recommendation, Mr. Terral, I know that.

Mr. Ball, do you have any comment?

Mr. BALL. I would consider either raising the budget or increasing the increments without raising the budget, maybe lowering the value of the increment so that more can be rewarded throughout the group.

Senator. STEVENS. That usually triggers my 30-minute speech about the deficit, but I'm going to spare you that today.

Mr. BALL. Thank you.

Senator STEVENS. Dr. Nielson.

Mr. NIELSON. Well, I did mention that I thought perhaps it might be a little more flexible and a little more satisfying to the personnel if there were more increments. This has been touched on by others. I mean, when you're stopped at a level, say, the DR-3, and you know it's extremely difficult to get a DP-4, perhaps if there were 6 or 8 levels, it could be smoothed out a little and it would help morale, perhaps. I'm not sure.

Senator STEVENS. Well, the GS barrier seems to be between 13 and 14.

Mr. NIELSON. Yes. We had the same problem there before.

Senator STEVENS. And you have the same one here?

Mr. NIELSON. Yes. Although there was a problem at the 12 to 13 as well as the 13 and 14 and the 14 to 15 because of the quotas. I mean, there's only so many of those positions available. But when you pile it all into one quota, into level 4, then you really stop everything up.

Senator STEVENS. I probably ought to go back to the former panel to decide how they allocate the money within the categories. I didn't get to that. We have to do it in running the Senate office. I'm sure others have to do it elsewhere. It's just to allocate arbitrarily money into specific categories, and it's hard to exceed those

quota systems no matter what type of basic management system you put into effect.

Mr. NIELSON. That's true.

Senator STEVENS. But it is the same barrier, in effect, you face here to this system, you face under the other.

Mr. NIELSON. That's true. Any system will have there barriers. That's true.

Senator STEVENS. Good. Well, I appreciate it very much.

Do any of you have any notes? I haven't gotten any.

You're free from any further questions. Thank you very much. I appreciate it.

Mr. BALL. Thank you.

Senator STEVENS. Our next panel is Mr. Andes, Mr. Borissenko, Ms. Kurotori, and Mr. Lubben.

Dr. Andes, please.

TESTIMONY OF DAVID K. ANDES, PH.D., OPERATIONS RESEARCH ANALYST

Mr. ANDES. Yes, I am operations research analyst with the weapons department. I am a DP-4, nonsupervisory technical Ph.D., University of California. I'm kind of a living example of the dual ladder. I did make the jump from DP-3 to DP-4, so it is possible. I've been at NWC off and on since 1969, total of about 11 years here. In between times I was professor of mathematics, University of Tulsa, Tulsa, OK. I have many years' experience both with the old and the new system.

I'm generally positive toward the demonstration project. I think that's a general feeling among the scientists and engineers in particular here that, you know, it's not a perfect system. No system is perfect, but it's certainly better than what we used to have, and I think we need to keep in mind what we're comparing it with. It's certainly not perfect; no human management system is.

Some of the important things are, you know, the pay and promotion being tied to performance. In the old days, it just really wasn't that way. And one of the things that needs to be brought out is, there's now five levels of grading. In the old way of doing things, you were either terrible, great, or in between. Since it was very difficult to rate anybody either terrible or great, everybody ended up in between, progressing up the scale, almost no matter what they did. At least that was the perception.

Under the new system, since we have five levels of grading, at least the middle three gets used. It's still difficult to rate somebody as terrible or great, but the middle three do provide some differentiation between people who are not doing so well from those who are, and I think that the pay and promotion tied to performance and the five levels of ratings instead of three are the heart of what's good about the system. I think that it could be improved by adding more layers to it, but then you run into more levels, and you run into problems in doing that, also.

The system, of course, is better understood. It's not a black magic thing where the personnel department and your supervisor went into a huddle and somehow decided how it is you were going to get promoted. There is more of a feeling now that people understand

why it is they are being promoted and how the points are being divided up. And there's never enough points to go around, of course, but at least people have a better understanding and better communication with their supervisors and understand more about what's going on.

OK. Those are my general comments about the system. I have some personal experiences. I'm in the field of artificial intelligence, which is a super high tech field right now. High salaries are being offered. Ridiculous salaries are being offered. I've been offered over $100,000 a year to leave here. I've chosen not to, partly because of the demonstration project. Now, it's not entirely that. It's also the working atmosphere that we have here, the technical job that we have to do. And I'm not saying the demo is most of why I decided to stay, but it's part of it. It's partly the culture here.

I have an example of a fellow who used to work with me, about the same level, Ph.D. physicist, left NWC about the time the demo project started, went to another Government laboratory. And we stayed in contact. In fact, we worked together on projects, so we started out about the same position, and he was caught up in the old GS system, and was essentially stifled. He was not able to progress even though he was doing about the same level of work, same kind of work that I was. And he has left the Government service. He's gone out to industry, making a lot more money. But I think that not having the management process there that we have here definitely had something to do with the fact that he's not working for the Government anymore and I am.

Senator STEVENS. Did you leave and come back while the project was in effect, or did you come back before the project?

Mr. ANDES. No, the last time I came back was before the project went into effect.

Senator STEVENS. OK.

Mr. ANDES. All right. I have contact with quite a few headhunters. They phone me all the time, and several of them, or at least two of them, have commented to me that it's much more difficult to recruit people out of China Lake in general than it is out of other Government laboratories. It's just harder to pry them loose.

I've watched the other laboratories, especially in the field of artificial intelligence, lose a large number of good people. Now, it's partly because of the salary differentials, and there's no way around that unless you want to break the budget. But I've watched other laboratories lose more good people than we have.

Senator STEVENS. Does that have anything to do with the climate? I mean, it seems the people who are here enjoy the weather as much as anything else. Is that your opinion?

Mr. ANDES. Well, you have to appreciate the weather here or you don't stay.

Senator STEVENS. Well, we could put this up at Fairbanks.

Mr. ANDES. I hope not, although I've never been there. I don't really know what it is like.

Senator STEVENS. A hundred and above in the summer to 72 below in the wintertime. There's a process of change that takes place annually up there.

Mr. ANDES. Yes. We have lots of sunny weather. That's mostly why the place is here.

Senator STEVENS. I understand. But what I mean to say, has that got anything to do, in your opinion, with the longevity and the desire to come back?

Mr. ANDES. For me personnally?

Senator STEVENS. Yes.

Mr. ANDES. It does somewhat. I like sunshine. I don't mind the hot weather. Some people do. Some people leave because of it. They don't like the weather here. It's hot, it's isolated. You generally have to be dedicated, I think, to stay here. You come from a big city background, it's hard to stay sometimes. There are pluses and minuses.

Let's see. Maybe the reason the demonstration project works here is because of the kind of people and the culture that we have here. I mean, we're all a bunch of mavericks. The demonstration project itself is kind of an example of the innovative ideas and thinking that has come out of this place. It's possible that if this system were spread out into the general Federal bureaucracy, they'd find a way to screw it up, and you probably ought to keep that in mind. Also, maybe you should think about just implementing it for scientists and engineers to start with in the Government, the way we did here, and find out if it works. There seems to be, I think, a higher level of satisfaction among scientists and engineers with the system than with support people and technicians.

Senator STEVENS. Thank you. Thank you very much.

Mr. Borissenko.

TESTIMONY OF ALEXEJ BORISSENKO, EQUIPMENT SPECIALIST

Mr. BORISSENKO. My name is Al Borissenko. I'm a missile equipment specialist, DS-3. Right now I'm acting as the deputy project manager for a new Sparrow Training Missile, and testing evaluation manager for that same program.

I like the principles behind the demonstration project. However, I don't agree with some of the ways it is implemented, especially for non S and E's, scientists and engineers, and specifically those people without degrees. A lot of jobs on this base, especially in project management, are not specifically S and E jobs or non S and E jobs. They are kind of a mix, especially in fields such as fleet interface work and fleet requirements.

In my particular field, the majority of us are ex-military. A degree doesn't really help you with that. Since it is easier for military to talk to other military or former military, we just speak in different languages.

On the differences between S and E, and no S and E, if you do the same job, you should get the same kind of money.

There's an advertisement I found in the local base paper a few months back that advertised for a branch head job with promotion potential advertised for a technician as a DP-3 and promotion potential of a DP-4 for an engineer. That's $19,000 promotion potential difference for the same identical job. Now, I can understand difference in formal education making it harder for a technician to move up than an engineer. However, I can't really see why performance should be rated differently and why your potential should be different.

There are quite a few cases out here. Nobody's ever been able to explain them to me, why a non-job-related degree makes one a professional when somebody else doing exactly the same work does not. A history degree does not make a logistics specialist a professional.

Some of the other instances of discrimination are: Specialists are stopped at things like midpoint DP-3 (GS-12) even though the XM-118 allows them to go GS-15. It's just arbitrarily stopped if they do not become a supervisor. In some departments they can't move up, no matter what position you're holding. The other—the awards—people with degrees are usually hired as DP-3, DP—or for nondegree, DS-3 in my field. One increment increase is $755 for a DP-3; while someone doing the identical job, nondegree, an increment is only $645. That's a $110 annual difference. That's not much, but it's just an indication of some of the problems.

The concern I have is on the rewards for performance. Looking at the demo bulletin that came out in 1986, roughly a little over 75 percent of the people on this base were awarded at least one "I" last year. Because of the way the I's are allocated on this base, presently it's 2.4 percent of any organization's salary for the rated people. That's so many I's you have to give. It's a limited dollar value. If you give over 75 percent of available I's to a group, there's not much money left over for your top performers.

I have a little breakdown. On an average branch, say, with 10 people, all at the same salary—I just used DS-3, step 8—that only gives you 11.5 "I" increments for the whole branch.

Now, if you give everybody an "I" for satisfactory performance, that gives you 1.5 I's for your top performers. I don't care what organization you have, you always have some top performers, some average and some below average. I can't see how you can break that down any other way.

The other concern I have is—I don't know if you realize this, but one "I" for good work gives you $28.00 per payday before taxes, which is not very much for working harder. I have a couple of recommendations. I don't know if you want me to go through them now or later on.

Senator STEVENS. Go ahead.

Mr. BORISSENKO. One reason we have a problem here is because of the way the system is set up, specialists, technicians, and administrative personnel, once they hit the top of the DS, DA, or DT 3 level, they are transferred to the DP-3 for the 12, 13 positions. That's supervisory and nonsupervisory. What happens is that you have some DP's, some DS's, and some DT's doing the same—in the same job category, equipment specialist, whatever job category. When you give a DP an 'I', that's more money for one thing, compared to a DS doing the same work, everything else.

My recommendation is we establish DS, DA 4 and 5 levels, and separate all of them, all the S and E's would be in the DP pay grades, all of the specialists in the DS, all of the administrative in the DA, and so forth. One thing that would also give you is, if you have trouble recruiting the scientists and engineers, you can increase the pay grades—the payouts for the DP pay grades but not necessarily increase it for the DS or the DA's. You can complete—

the pay should not be tied to each other. If you can get the people, why pay them when you don't have to?

The other thing I had, under the current policy is, when an "I" is awarded with a fully satisfactory performance evaluation. You can be awarded a "C", which is a cost-of-living increase, a "C" plus 1, or one "I". If you're issuing one "I" to 75 percent of your people or more—and I suspect of the other 25 percent, a lot of them were probably either ineligible for any I's because they were already topped out at their pay rank, just promoted or just transferred—it doesn't leave much for the other people.

What I would recommend is I's would only be given for highly satisfactory or highly successful work, and increase the value and keep the money down, instead of paying out one 'I', which is equal to about 2.4 some percent of salary right now, double that and make it 5 percent. You would be giving out less I's, but it would be worth more. You'd roughly be able to give out 60 percent of your people I's, instead of everyone. It would cut down the spread of giving everybody awards. An award should only be given when you actually perform, and wouldn't cost you any more.

The problem I can see on that, there's always favoritism. We have an appeal process in place now. If you don't agree with your evaluation, you can appeal it. The problem I see is, any time you have an appeal process, it gets abused. People appeal any time they don't like their rating, an easy way to fix that would be that an appeal board should be able to take away ratings too. That should cut down on the awards instead of just add to it. That's pretty much all I have to say.

Senator STEVENS. Thank you very much.

ANN KUROTORI, PERSONNEL CLASSIFICATION SPECIALIST

Ms. KUROTORI. Good morning. I'm a staffing and classification specialist with the personnel department, a DP-3. I started my career service with the Federal service and at NWC in March of 1976; and I was in the personnel department at the time we first started implementation of the demonstration project, so I was involved in the intensive training connected with bringing in—initially—the scientists and engineers, and then the gradually bringing into the program of the technicans, the administrative personnel, and the specialists.

I'm very much in favor of the demonstration project. The integrated concept allows managers and supervisors to manage pay throughout a number of the elements of the system. The two key elements are classification and pay for performance. Both of those elements, within both of those elements, supervisors and managers are able to, I think, administer—hopefully, responsibly—the pay of their employees.

The classification system allows line managers to easily and simply determine whether the position that they have requires a trainee, an intermediate, a full performance journeyman, or a super journeyman or a uniquely-qualified individual. The manager can then generate an appropriate level 1, level 2, level 3, or level 4 position description, each of which has a very wide range of pay.

The manager plays a key role in setting pay within that level, and that determination is made based on the individual's qualifications, education, relevant experience, and other criteria that he and/or she and other managers have some input into. Personnel department is not dictating what that pay should be based on; some simplified personnel regulation as promulgated by an OPM regulation or an FPM, or a Navy guidance.

The performance evaluation system is also a strong element. My only comment in that area is that it seems to have maintained a level of credibility among employees and managers, in spite of the inherent pitfalls to any system that ties pay to performance. There are a lot of pitfalls. But so far, as far as what I can see, there's always a certain grumble level, but it hasn't accelerated to the extent that it's caused serious problems. I think overall the pay for performance system that we have in place has maintained a certain level of credibility across the board.

As for applicability throughout the Federal service, I believe it's possible. However, the personnel managers and line managers involved must want to implement a simplified system, and they cannot feel threatened by changes. Those changes are going to be necessary whenever a new system is introduced.

For us here at China Lake, responsible implementation meant keeping a number of things in mind: One, keep it simple; two, maintain equity, attempt to maintain equity, and attempt to maintain a continued perception of equity throughout the work force; thoroughly assess proposed changes to the basic system before implementing those changes; don't react too quickly and fix only what needs fixing; and to also keep in mind that no system is a cure-all for all the ills of the work, of work in general; and, fourth, establish and maintain broad lines of communication through written bulletins, through task teams, special ad hoc committees, things like that.

For Federal-wide implementation, probably a much greater degree of control will be necessary. The danger is that those controls may establish a whole new system of controls which could be as complex and ineffective as the old system's that we're working under now. If a system is to be workable, the line managers must be allowed enough flexibility to adapt the basic system to the requirements of their particular organizations.

That's all I have.

Senator STEVENS. Thank you very much.

Mr. Lubben.

TESTIMONY OF DANIEL LUBBEN, MATHEMATICIAN

Mr. LUBBEN. My name is Dan Lubben. I'm a mathematician, DP-1. I was hired May 1986. I'd first like to say, concerning our weather, that I think it's unfortunate that you came here during our present cold snap. People stay here in spite of the weather and the isolation, not because of the weather.

I came here because I was laid off as a market analyst in Houston when the oil field industry turned down in 1982. I couldn't find a job anywhere, and because I grew up here, I ended up coming back and getting a job out in town with one of the local contrac-

tors. I wasn't pleased with what I saw there, the way they did business, so I decided I wanted to work for NWC. I went back to school, got a math degree, locally and through correspondence—or, actually, the equivalent of a math degree, which qualified me to be hired as a mathematician. The demo project is something that's very enticing because you know that you have at least the possibility of being rewarded for your efforts and your contributions.

I probably represent in maybe a typical way some of the newer employees. I've talked to a lot of people over the last year, and especially the last couple of days, concerning the demo project and some of the things that we're looking at as new employees. And the demo project is probably one of the main two factors in giving us a positive attitude about our jobs. One factor is the general positive, professional work environment that you have at NWC; and the other is the demo project.

I think the general perceptions tend to be that there is a lot more money to be earned out in industry, away from this community; that civil service benefits in general are declining; that the mood in Washington is to save money, to turn a lot of the business over to the private sector, and that our benefits package as civil servants will tend to suffer because of that.

The demo project, the junior professional program that the base has here, the professional environment, the meaningful work and the responsiblity that we're able to get early on in our careers, and the friendliness of the community, are what attract people to a job here and what keep people here. I think it's very important that the demo project or some similar project is retained.

One of the men that I talked to in the last day or so had worked for NASA for a couple years, and then for Lockheed for 3 or 4 years, and then came here 10 months ago. His comment, I think, pretty much capped our feelings. He said that the demo project was a breath of sanity in an otherwise hopeless civil service pay and benefits package.

Senator STEVENS. Thank you very much.

There's one question here from a member of the staff. A previous panelist suggested that a greater number of bands, more levels, be injected into the plan to give a higher morale and a greater sense of progress. Do any of you agree with that?

Doctor, do you agree with that?

Mr. ANDES. I think that might be a good idea. The smaller number of bands that we have makes the hump that you have to get over from man to man higher. And I think, as I said before, the number of bands isn't really the essence of the demonstration project, and more bands might help it. But, you know, there are problems, so that means more humps to get over, as well as harder to get over the humps. So there are pluses and minuses.

Senator STEVENS. Ms. Kurotori.

Ms. KUROTORI. Well, right now, under the GS system, the career ladder for an engineer is 5, 7, 9, 11, 12, 13. That's six grades, six grade levels. If we're talking about six or eight bands under the demonstration project, I don't see where that would be much different than our current system.

Right now our bands are geared or tied to the GS system. If that were decoupled and we had a completely different range of pay and

then establish those bands in some way so that we could be competitive and be effective in our recruitment, that might be an alternative way.

Senator STEVENS. OK. Thank you all very much. I appreciate it. You've told us of your comments.

Our next panel is Elizabeth Babcock, Richard Blosser, John La Marr, and John Morrow.

Now we are down to two panels of people in supervisory positions, and I hope you appreciate my comments. I am quite anxious to get this informal kind of communication going, so I'd like to suggest to you and the succeeding panel that we take about 15 minutes for each of these two panels. So if you can limit your comments to me for the record, the four of you, to 15 minutes, then we can go on to the informal thing later. So proceed on that basis, with Ms. Babcock being first.

TESTIMONY OF ELIZABETH BABCOCK, PROGRAM MANAGER

Ms. BABCOCK. My name is Elizabeth Babcock. I have a background as a technical writer, and I'm currently head of the library division here at NWC. I was really happy to have a chance to talk to you, because I've read so much in the paper about how this system maybe only works for scientists and engineers, and in my department we don't have any. We have a lot of professional people, but they are not scientists and engineers. They are technical communication professionals.

I think the demo system works very well in my department, and one of the reasons why I think it works really well is because it is flexible. If it is to be implemented more widely than here, I hope that whoever does the implementing leaves flexibility in it, because I think the strength in the system is directly proportional to how much flexibility there is for the individual manager to manage.

That does not extend, in my opinion, to monkeying with the number of I's or with the allotment of I's, which I think we really need to manage. I think if I had an infinite number of I's it would be a lot easier for me to just give everybody a lot of I's then they'd all be happy. The fact that there are limited I's forces me to manage to that limited number, and we all have to manage to scarce resources in other respects too.

I've been at NWC for 15 years, and also civil service for 15 years; and I've been either a supervisor or a manager for the entire length of the demo project. I see three big advantages to it: The ease and flexibility of classification, which I'm not going to really address, because a lot of other people have mentioned that too; the performance monitoring and evaluation system, and also the flexibility, which I already touched on.

As for performance monitoring and evaluation, I really like the fact that my employees and I sit down jointly and negotiate what it is they're going to do, and that gives them a chance to tell me when I'm giving them too much work and, maybe more frequently, when they feel that they can be given more challenging work than they are being given; and it also helps me understand exactly what it is that they're doing, and allocate the work better.

And also I like the fact that we have monitoring sessions throughout the year that we need to adhere to. Before the demo, I always had the best will in the world, and my employees did too, but I don't think that we sat down formally at several times over the year and rigorously addressed how I felt they were doing and also what more they would like from me, and that does happen under the demo.

Also, in my department, we have a performance review board process that's unique in its details, and we've just gone through a process of working-level people up through division managers reassessing how we wanted that to work. That's part of the flexibility that I really like. The fact that people at the working level have stated how they want that to work, I think, in my department, makes acceptance of the payout very high. People really understand that those I's are limited, they understand why, and they understand the process by which they are handed out. Like any system, it only works as well as the people who are making it work. I think it works about as well as a system could. Thank you.

Senator STEVENS. Thank you.

Mr. Blosser.

TESTIMONY OF RICHARD BLOSSER, SUPERVISORY PHYSICIST

Mr. BLOSSER. Good moring. I'm a DP-4 physicist. I'm a division head in the aircraft weapons integration department. I have five branches, with about 90 people working in the division.

Although we talk a lot about pay for performance in our demonstration program, I feel that the key point to it is not the payout as much as it is what Liz was talking about, the communication with the employee and the sitting down with each employee, setting their performance goals mutually, and agreement on them before they start their work, and then the performance evaluation throughout the year. That was available under the old system, but I don't think many people exercised that. To me, that is the key point. I see pay as a short-time motivator at best. It's more important for an employee, including myself, to have your goals set, meet those goals, and have the job satisfaction knowing that you've actually completed the job. To me, that's a motivator, and I think that motivates most people.

Senator STEVENS. How much time does that take compared to the previous system?

Mr. BLOSSER. Under the previous system, we really never sat down with the employee, never required to do that ahead of time. You do a performance evaluation, you sit down with your supervisor, you have a little card, and you go over it in about 15 minutes. I've got seven employees that report directly to me. I spend at least an hour with each one of them setting their goals, and an hour with each one of them at the performance evaluation. That's independent of working with them throughout the whole year. I think that's critical and the most important part of the whole demonstration project. It's well worth the time.

The demo project also helped, from our standpoint, the flexibility to be able to hire people, especially out of college, but even the senior people, because we have more flexibility in setting the in-

coming pay. That allows us to hire people. We've gone through an intensive recruiting period before we had the freeze put on us, allowed us to hire a lot of good people better qualified than we probably would have gotten under the old system.

I like the fact that the pay raises aren't automatic. I think it's a mistake to just give automatic raises, as they were under the old system. I've also heard a lot of talk about the fact that the I's are limited to 2.4 percent. My personal experience and my personal belief is that lump sum is about the amount of money we got with the within-grade raises before. It's our job as managers to really evaluate the people and to give out what they deserve and do a critical job in doing an evaluation, which I'm not sure was done under the old system. Granted, we'd all like to have more, probably; but I think it's adequate.

The one thing that I would most like to see changed under the old system is that the journeyman level was a GS-12, and most branch heads were GS-13's. Under the new system, there's not a lot of incentive to make that transition. And so I'd like to see something implemented, when somebody got a new job as a supervisor, maybe a one-time, two I's, four I's, something like that, as incentive to get people to take on the supervisory jobs.

The last statement I'd like to make is, what I see as the basis is the performance monitoring and setting goals; and I can't see why that wouldn't work throughout civil service if we do it reasonably. Thank you.

Senator STEVENS. Thank you very much.

Mr. La Marr.

TESTIMONY OF JOHN LA MARR, SUPERVISORY COMPUTER SCIENTIST

Mr. LA MARR. Yes. I'm a supervisor, computer scientist, DP-4. I head up a small division—not as big as Rich's—in the communication area. I've been at NWC for 18 years, civil service for 22 years.

I think basically it's much easier to point out the negative things about a subject than it is to point out the positive things. As far as the positive, a lot of my stuff is redundant to what you have heard. The flexibility that's there, there is just no comparison to what we used to have or what we primarily ignored.

A key thing was a supervisory and employee contact in the reviews and the plan setting, and I also take anywhere from 30 minutes to an hour to the people that I deal directly with. I think the use of a PAC, the classification, is so much easier than the old PD, which were flat ridiculous and very hard to do.

The rebuttal process or what we have if you want to contend or go against what your rating was, I think is fair, as fair as can be in most cases. I think the use of the bonus pool that we have does help to award outstanding and very special performance ratings to personnel.

Probably the number three of the biggest things—flexibility and supervisor contact is great for recruiting. We spent a lot of time where we could not recruit junior engineers coming out of school because we couldn't pay them. I mean, GS-5/step 1, they laughed at us. Now we can get those top-notch students coming out of

school, and that's what builds what you're going to do for tomorrow. We have more flexibility in the entrance salaries. No longer 5/step 1 or 7/step 1.

As far as some of the cons, most of them are really minor. I think the PAC, although it's great and easy to do, once it's done, it's not very useful to me as a supervisor anymore. It doesn't really add to the process, although it may help personnel out in their case.

I think the payout pool quota ought to be looked at. I realize that there are restrictions on everything we do, and so I'm not against having some guidelines or something, but there ought to be a little more flexibility other than the 2.4 percent, because when that gets passed down to the lowest level, people really adhere to it; and there are a lot of supervisors that feel that their performance is based on coming in at 2.4. So I think there ought to be a little more flexibility in that. The silver-tongued ones, as mentioned earlier, who are a little braver, will try to exceed that.

One of the other negative points is that I think there's a lot of local differences between some of the department processes. Some of the departments, when you go through your PRB, are quite detailed. I worked in a couple of departments, and there are some differences, and you try to be as fair as you can across the board. But there ought to be a little more structure there, I think.

As far as the review process, one of the problems we found out with most any system is that some of the supervisors still don't do the job as well as they should in documenting what they do, but that can be inherent in any system. I think the demo program works a lot better at the lower ends, the DP-1's, DP-2's, DP'3's, as far as incentive. Money takes more primary interest there than it does with the atta boy.

One of my biggest concerns is what I call leapfrogging. I don't really have any data on it; but a perception is that we've hired people in at a DP-1 this year, takes him maybe a year, 18 months to 2 years to get to a 2; the new ones come in next year, and they come in at actually higher salaries. That has been an incentive to some people I know personally through the center that are 2-s, because it takes a long time for them to get promoted and so forth, and they are being bypassed, or the perception is there.

The dual ladder, from the technical standpoint, even though I'm supervisory, I depend on my technical leads to really do the job. I think there ought to be a little more incentive put into the dual ladder. It's there, but not as well as it should be.

Another area of concern—probably in the old system it was there—it's called the end around. In a department, if you're going to promote a DT, a technician—and I'm an ex-technician myself—to a DP-3—and usually in a department you have some fairly good, stringent standards—and in Rich's department, which I came out of, we had that to promote a person to the 3. But a person can go across department lines and get that DP-3 from a DT-3 much easier than he can in his own department that has a process. So that's a concern.

Overall, if I had to rate the demo program 1 to 10, I'd give it an 8½. Sure beats what we had, which we primarily ignored. Personnel took care of everthing.

Recommenations, I think at least from NWC, we ought to keep it and expand it. Whether or not you put it anywhere else, I really don't care, because I plan on staying right here. I'm not going anywhere else. Although, I think it would help the overall retention of the technincal people and management in the Government service. We lose too many good people to the beltway bandits and the China Lake Boulevard bandits.

I think it's worth it, from a supervisory standpoint. It gives you that contact. As far as improving it, just the midpoint, that little hump that we have there, concerns me at times. But I think we do have the right to manage our people, and the people don't mind being managed. Because I'm a supervisor and I'm managed also.

From a personal standpoint, the system has rewarded me from a salary standpoint, although my salary is not comparable to what I can get in the industry, although I've never been offered over $100,000. I think what keeps me here is NWC's mission and the culture that we have here, and I think the demo program is part of that culture. Thank you.

Senator STEVENS: Thank you. Mr. Morrow.

TESTIMONY OF JOHN MORROW, SUPERVISOR, OPERATIONS RESEARCH

Mr. MORROW. I'm John Morrow. I'm the head of the survivability and lethality division. Although I'm classified as a supervisory operations research analyst, I am an engineer. I have been in civil service for just a little less than 10 years, all of that here at China Lake, and as a supervisor. So I've managed both under the old civil service system and under the demonstration project.

I'm a very strong advocate of the demonstration program. I agree that there are problems, and I won't elaborate on any of the things that have been talked about by the other members here. I want to talk about a specific study that we did a little over a year ago. We had a study team look at the feasibility of bringing the clerical and assistant staff into the demonstration project. It's something that I think should be done at each agency that would be considered for the demonstration project, because each has different missions, different work forces, different environments that they work in. And within an agency it should be looked at for each of the general categories within the work force.

The study was a two-phased study. The first was an analysis of the tradeoffs to determine the feasibility and desirability of bringing that work force into the demonstration project, and then the second phase was conditional on the results of the first. If it was determined to be desirable, then to recommend a pay band in approach, because it was felt the pay banding would be the biggest problem with that type of a work force.

It was determined in that first phase that the benefits that could be obtained—and they have been discussed by several people here—would make it advisable to bring them into the demonstration project if the pay banding could be worked out; but that if the pay banding problems were not resolved, then the entry could be both harmful to the employees and to the Center as a whole. And in doing this study, we looked at the NOSC system, because the

NOSC system has this comparable work force within their demonstration project.

A very strong conclusion—and I think that this should be a guideline for other agencies looking at this—is that the pay banding should not degrade or impede the potential pay growth or promotion patterns of the affected work force. That had to be very carefully looked at. There were 602 people, and they fell into 30 different job series. Normally you think of the clerical and assistant staff as being predominantly secretaries and clerk typists, but they only made up about half of that work force; and the others included clerical people and assistants in supply and within the accounting departments.

There were—6 of the 30 categories or job series only had one person in them, so there are some very specialized job series. They range from GS–7 through GS–11, and there were varying entry levels and journeyman-level target positions for each job series.

We did not find a concise wide banding, wide pay banding scheme that would fit all of these job series, and we recommended a narrow or modified narrow pay banding scheme that would be narrow pay banding within at least the central range of this level; and also recommended that if an appropriate pay banding scheme—we reinforce the recommendation that if it couldn't be achieved, that we not bring that work force into the demonstration project. The pay banding scheme did not fit the OPM concept of the demonstration project, and personnel people and OPM are still working on that. I think Bob Glen is probably there to talk about it, or will talk about it later.

I do support the demo. I think it could be worked for almost any type of work force, but it does have to be structured to fit that work force.

Senator STEVENS. Thank you very much.

I thank all of you for giving us your comments.

Our last panel is Dr. Atkins, John Maschhoff, Dr. Ed Royce, and Don Winter.

Now, I have a note here that Carl Schaniel and Steve Sanders are here too. Are they here now?

Mr. SCHANIEL. Yes.

Senator STEVENS. Now is when we bury the process, because we're at the end of the hearing, really, in a way. I know you all have your individual comments you'd like to give to us, but what we'd really like to get from you is an answer to a question I tried to put to others.

We specifically would like to look to you for comments now on what changes, if any, you'd make to this project if we moved you to another agency. Suppose I moved you to BLM, or the Forest Service, the FBI, or somewhere else, and you were told to put this into effect in that new agency. Is there anything that you, based on your knowledge of this demonstration project, would want to change before you took it over there?

Now, that's a tough question, perhaps. But it really is a basic question I'd like each one of you to address, and only that question, if you will. What changes in the system ought to be made to make it generally applicable to every concept of employment? Do you think you could do that?

Mr. Schaniel, you were part of the original steering group, weren't you?

TESTIMONY OF RONALD ATKINS, PH.D., SUPERVISORY RESEARCH CHEMIST; JOHNNIE M. MASCHHOFF, ENGINEERING TECHNICAL SUPERVISOR; ED ROYCE, PH.D., TECHNICAL BASE DIRECTOR; DON WINTER, SUPERVISORY ELECTRONICS ENGINEER; STEVE SANDERS, STEERING GROUP; AND CARL SCHANIEL, STEERING GROUP

Mr. SCHANIEL. That's right. Yes I was.

Senator STEVENS. It's a more difficult question for you, perhaps, than for others because you have a father complex with this system, perhaps, a little bit. What would be your response to that one question?

Mr. SCHANIEL. It's not as much a change. It's in putting it somewhere. You would have to very carefully look at how you sort out the groupings of people. Where we have DP's for professionals, DA's, DS's, and DT's, some other organization—like the FBI or somewhere else—would have to very carefully look at how they wanted to group people into the categories, because it would be how the work force was organized, would be the key to how you set that whole operation up.

The other thing which is a prerequisite, not a change, is the dedication of the top management to making the system work. If that isn't there, coming all the way down from the top, the freedom within the demonstration project is difficult to make work, because top management has to have that oversight, and the ability which we've had to generate as we've gone along here to have performance factors that management can do an overview of what's going on so that they can make judgments.

In the current system, you have a fixed set of rigorous statistics that you have to meet in scales. In the demo project, you have a broader categorization of success, and top management has to have the insight and the desire to do the overview assessment in a less—I don't want to use the words "less rigorous," because it has to be equally rigorous, but less critically in a documented fashion. I don't really make myself clear.

Senator STEVENS. Yes, less paperwork. I read you, yes.

Dr. Atkins, would you comment on that question for us?

Mr. ATKINS. I haven't got any suggestions for major changes. One possibility arises. I'm in the Research Department. I have a lot of Ph.D.'s and highly educated people working in the department. We could potentially—and because of the entry-level salary requirements—hire in a very good Ph.D. or a master's degree level person, a DP-3 level, and that person could spend their entire career at China Lake doing very good service, excellent performance, and never get a promotion because of the problem with DP-4's. And, we do have a dual ladder problem.

We work really hard at trying to have a dual ladder, we agonize over every DP-4 promotion, and we do a lot of nonsupervisory promotions, but there is a limit. And most of them do end up with managers and supervisors. So it's kind of a difficult system, where somebody might spend their entire career and never have a quote,

real promotion. We can give them four I's, but today nobody really equates four I's with a promotion. And so you have to build in some kind of positive stroke or recognition for people; perhaps a one-time increment, four I's, or 10-percent salary raise, something like that, somewhere to recognize people for their outstanding performance, which would equate to—more to a promotion than just the regular yearly payout.

Senator STEVENS. You'd like to see somehow incorporated in this an option to make the bonus part of the base, in other words?

Mr. ATKINS. Yes.

Senator STEVENS. Interesting comment, yes.

Ms. Maschhoff.

Ms. MASCHHOFF. Personally, looking at it, I don't have people working for me that are highly educated. It's not that they are uneducated, but they are more at the technician level. One thing that I've noticed, because of some of the people I've recruited from other departments prior to this freeze coming on, is the lack of consistency between department to department in the way they are evaluated and the communications that go on between the supervisor and the employee.

We've established in the demo program an accountability for the employees, and we write performance plans for them. But so many times, from feedback that I get from people that have worked in other codes that now work for me, some of the supervisors don't even look at those plans as even being of any value. It's like I have a plan, but your assessment really has nothing to do with what your plan has to say. And I think there has to be an accountability on the part of the supervisors that they really do implement and they really do communicate with their people.

I hired a woman from another code, and she had only been with me a short time, so I didn't evaluate her, and I received her evaluation. She was a specifications writer, and she received a fully satisfactory evaluation from her supervisor, but the comments that he wrote in there were so negative and stating that she really didn't support the programs that she had worked on. And she came to me and she says: "Johnnie, I'm not griping about the one 'I.' I'm not griping about the fully successful. What I'm saying, these are lies and they're really not true."

So I told her: "OK, go to the program managers that you supported with this effort, and you get from them a letter in writing stating just exactly how you did support them."

Well, she got the letters and they were more than favorable. So I went to her previous supervisor and I explained to him that the things that he stated in there were really not fair and equitable. He said: "Well, I don't really know that I paid a lot of attention to her performance plan."

I said: "But that's what you're supposed to rate her on."

Senator STEVENS. That's a very subjective system. I think that's one of the sources of skepticism. You have a very highly motivated group here and, obviously, in terms of the general group of Government people, a much higher level of education attainment and of motivation.

So, the subjective system here has a better chance of evolving into a workable system than it might if you were in a totally service-oriented economy in the Government.

Ms. MASCHHOFF. But the thing through the appeal process, I talked to him and told him that in the light of the data I had gathered, that we would go through the formal appeal process if he didn't want to reverse it. Consequently he did. But, again, I say the positive thing is there, is that appeal process, and there is a measurable that those employees can look at and say: "OK, this is what I have signed up to do, and I can either choose to exceed it or I can choose to meet it," and I think if there's a positive, that's got to be one of the largest positives there are.

Senator STEVENS. Well, that's very true. I think the appeal process, both here and in San Diego, has apparently been utilized, which is the interesting thing. Normally you don't hear of it being utilized. There is a motivation there for that, too.

Mr. Royce, you are a member of the steering committee too.

Mr. ROYCE. I'm currently a member of the steering committee. I was not early on. I came onto it about 3 years ago. However, I was a department head for the last 10 years, which meant that I was a department head through the entire implementation of the demonstration project, and I guess I'll give you that perspective on what we've done, and potential changes.

I think what's important is for us not to think about tinkering with a transfer of the demonstration project to some other organization.

Senator STEVENS. Wait a minute. I've got to think about that. You may not have to think about it, nor my friend who says. "I don't worry about change because I'm going to stay right here." But, I have to think about it; so do these people.

Mr. ROYCE. Let me go on and explain what I mean, Senator. Organizations differ in the nature of their work, the nature of their work force, the environment at which they do it. I think what we've done here has been successful, and one of the reasons that we were successful was that we had the flexibility to design the project for our needs. Project was not designed as an abstract exercise in personnel management. It was designed by supervisors and employees who were on the job and had problems that they wanted to solve.

What I would encourage in the transfer of this project to other agencies, other activities, is that we try to—however this is set up—preserve that flexibility, give other organizations the same opportunity that we had to solve their problems that arise from their particular circumstances, using the general framework that we've established under the demonstration project. Framework has to be laid out. It can't be totally free-form.

Senator STEVENS. Doctor, we've got to tell you, the difficulty with that is the mobility of our people, even within the 1 million people you've got in the civilian side of the Department of Defense, the mobility from installation to installation requires some kind of continuity, some kind of adaptability of one job to another.

If we get subjective totally, in terms of moving from here to some similar job but in a totally different goal-oriented installation, then we'll get down to the point of not having that mobility. It's fine for

people who want to stay here forever under the system, but a lot of people—like the one lady who's going to end up by having to move because of the other spouse or because of family considerations, or because of a lot of other things—move to another location. There has to be some objectivity as well as subjectivity in a personnel system so that it's fair and so that you can have lateral transfers and keep it in the Government, to the advantage of the experience that you've developed here.

Mr. ROYCE. Yes.

Senator STEVENS. I understand what you're saying. It's nice to say that each entity in the Government can set up their own system that works best for them. But then we end up hiring a bunch of people to evaluate where someone fits in when they try to transfer? OPM would shoot us if we tried to suggest it.

I can see some of us saying, well, we'll have one grade. You know, there will be 1 to 15, and I just want to set the salaries. That will be the ultimate in subjectivity for management scheme. And I'm sure you all must have gone through some similar concept of how many levels you had. I understand what you're saying, give them some flexibility, but to return to the question: If you had to take it somewhere else—what would you want to change? Because of your experience here, what would you want to be sure you didn't encounter in another place?

Mr. ROYCE. All right. Let me answer that question, and I'll try to elaborate a little on what I was talking about earlier. Obviously I don't mean go totally free-form to every organization.

Let me give you an example of what we did here, which may illustrate the point that I'm trying to make. As you have heard, the details of the implementation here were designed by a series of task teams had employee and supervisory participation that laid out a fair amount of the detail of how the project was implemented, to be implemented, that provided——

Senator STEVENS. With due respect, now, I've been through this in San Diego and here. I'd like to get to my question.

Mr. ROYCE. Let me get to the point that I want to make there.

Nevertheless, departments were then given the flexibility within that framework to further work out the details of how they were going to deal with the very specific day-to-day sorts of things that they had to do. So there was a cascading of guidelines that took place. It's that same kind of a cascading that I think could be done to provide some flexibility in the various organizations and at various levels, decreasing flexibility as you go down through the system. Now, you asked me specifically what would I do in other organizations. If I went to another research and development laboratory, I would not make major changes. There might be some detail tinkering, but they are not at the level we need to talk about here.

Senator STEVENS. Would you have one pay pool?

Mr. ROYCE. I think a pay pool needs to run somewhere between 200 and 500 people. I think that if you go below that in the pay pool, you start generating inequity problems. And there's not much reason to go higher than that in a pay pool. We have at the department level—ranges probably from 150 to 600 or so here. Some departments have chosen to set up some pay pools within their de-

partments. In my department, we chose not to. We talked about it and decided that was not the way we wanted to do it, and I would not advocate doing that.

Senator STEVENS. That's some additional flexibility they don't have at San Diego; that's for sure. I appreciate that.

Mr. Winter.

Mr. WINTER. I don't think I would change the system very much if I went to another laboratory. However, I will express one thing to you, Senator, that I have heard some concern about from other employees, and that's the entry-level supervisor area. Most employees that are early in their career do not feel that there's compensation that takes place in that DP-3 range for a person that takes on supervisory responsibility, even though they do realize it's going to be more work and more hours. That may not all be bad, especially at R&D lab, because we don't want to really pull our best researchers and make supervisors out of them. However, in another facility I think we might want to make sure we address that, that it be considered that there be some compensation if we have a need to attract supervisors over into that role, to leave the scientific field. So I just say, that's an area I've heard some concern about, But I don't really think it's a problem here at NWC.

Senator STEVENS. Well, has the bonus plan of the pay pool been adequately reduced to produce that taking on of additional burdens?

Mr. WINTER. Well, I think it's been used, but the same problem exists. When you try to award the supervisor, it means you take away from the rest of the group, so there you go with the tradeoff. Maybe there needs to be something like in the old system; when a man took on the supervisory job as a professional, he moved from a GS-12 to a GS-13, and it was usually a significant step for him, and that attracted younger supervisors, I think. I do hear the comment, "Why should I go into supervision today? I'm not going to get any more money for it." You know, that comment is there, then we should listen to it.

Senator STEVENS. Thank you.

Steve, we're glad to see you.

Steve spent some time with our committee as a Legislative Fellow back in 1983. Nice to see you again.

Mr. SANDERS. Thank you, sir. I enjoyed that tour tremendously. It's also nice to be back here, too.

In answer to your question, I have to go back to the initial panel that talked in terms of taking a basic skeleton and allowing agencies outside of DOD and outside of labs and so on to adjust to what their needs are. I've heard a lot of comments this morning concering things that may be problems, et cetera. I think we spent a lot of time, from the management standpoint, looking at those problems and making tradeoffs. I would also have to compare that with, if somebody in Washington, away from this activity, was in fact making those decisions.

A very, very key part, I think, for the exportation of this is allowing ideals and decisions as much as possible to be made at a local level, and recognizing that people are involved in different types of work, that the problems at different locales are different. You know, the problems that we have here are different than the

problems they have in San Diego, and they are different than the problems that employees have in Alaska. I think decisions, to the maximum extent possible, need to be made at the local level rather than the Washington level.

Senator STEVENS. Well, haven't we been fairly successful in decentralizing the whole concept of this paperwork control without regard to this experiment? I mean, I remember the days when you used to have to send a new job description over to Civil Service to get it approved. Couldn't even get it within the same department. You don't have that kind of control here, even with the GS schedule employees, do you?

Mr. SANDERS. It still is done locally, except that we still end up having to go to personnel department to get those positions classified.

Senator STEVENS: It is local. Right?

Mr. SANDERS. It is done locally. That is correct.

Mr. STEVENS. This is where I was getting with Dr. Royce. In terms of movement into another entity, it's the flexibility within the system rather than changing the sytem itself. That's your message, really, wasn't it?

Dr. ROYCE. Yes, yes. If you tie whatever system you do to the basic GS-1 through GS-18 level, it is my belief that you'll be able to transfer people between agencies. For example, the employee here who's a DT-2, equivalent to the GS-9/step 3 level, would be able to transfer to the Forest Service as an FS-3, for example, provided that was anchored, again, to the GS-9 level. Let's say that was GS-9 though GS-11 and ours was A through 10. You have to continue to maintain the GS-1 through the GS-18 level and that same salary structure to be able to anchor and tie that to. That's the way we are able to transfer people outside of NWC to another agency, which we do fairly frequently.

Senator STEVENS. I appreciate that. I want to thank you all very much. And I'm sorry to sort of limit the time that you've had available here. Behind those doors when they are opened there will be what I'm told is a no-host lunch, and you all who are part of the system know what that means, I hope. It's been set up, I'm told, on that basis and it will cost you $3.95. We have a general pay master here who will take care of it and get the money back, I assume, somehow, from us.

I hope that many of you will stay and have some opportunity to visit with these young people here representing other Senators. They have a frustration level that's fairly high because I don't ask all the questions they sent to me, so maybe you can help answer them for us, and they can carry back some impressions that they would not have otherwise.

I appreciate your courtesy and thank you very much. I want to thank all those who helped us set this up today, and have aided us to get this record.

And thank you, in particular, Laura, for preparing it.

Mr. ROYCE. Thank you very much, Senator.

Senator STEVENS. Yes, thank you.

The subcommittee is now adjourned.

[Whereupon, at 11:55 p.m., the subcommittee adjourned to reconvene at the call of the Chair.]

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